

Evaluation of EC Country Strategy: Mozambique 1996-2000

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The authors accept sole responsibility for this report. The report does not necessarily reflect the views of the European Commission, which commissioned this report.

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Preface

The Mozambique Country Strategy Evaluation (CSE) has been carried out as one of a series of CSE exercises on EC assistance programmes worldwide, undertaken on behalf of the Evaluation Unit in the Joint Service for the Management of Community Aid to Non-Member Countries (SCR).¹

The recommendations are built on assessments of both the preparation and the implementation of the EC's strategy in Mozambique. The findings and recommendations were discussed in Brussels on 21 September, and the draft report was presented on 10 October.

The report is based on a mission to Mozambique by Messrs. Carlos Montes (team manager), Toby Wolfe, Chris Cramer (poverty impact and private sector), and Alistair Hallam (rehabilitation programme), that took place from 8 to 22 July 2000. Mr S. Migliorisi was also part of the team contributing to this report.

The evaluators carried out an extensive review of Delegation files, available mid-term reviews and evaluations, and interviews with Delegation staff, other donors, Government officials, and private sector and civil society organisations (42 interviews in total, Annex 3). The programme of evaluation activities followed the standard methodology applied in all previous country strategy evaluations.

This report would not have been possible without the collaboration of the Commission Delegation in Maputo and that of Mozambican Government officials, as well as the generous assistance of members of civil society and the private sector, to all of whom we are grateful.

Evaluation Director EC Country Strategy Evaluations:

Carlos Montes

The following Country Strategy Evaluations have been carried out by the Development Strategies/IDC team: South Africa, Senegal, Azerbaijan, Papua New Guinea, Dominican Republic, Turkmenistan, Mozambique, Uganda, Namibia and Burkina Faso. Copies are available on the evaluation unit website (currently at <http://europa.eu.int/comm/scr/evaluation/program>) and from the evaluation unit, Common Service of External Relations, European Commission.

¹ A CSE is meant to be forward-looking, contributing directly to the preparation of a new strategy.

List of abbreviations

ANE	National Roads Agency
AWEPA	European Parliamentarians for Southern Africa
BWI	Bretton Woods institutions
CDF	Comprehensive Development Framework
<i>CNE</i>	National Elections Commission
CPF	Counterpart funds
CSP	Country Strategy Paper
DFID	Department for International Development (UK)
DNEP	National Directorate of Roads and Bridges
DPCCN	Department of Prevention of and Combat against Natural Disasters
EC	European Commission
ECHO	European Community Humanitarian Office
EDF	European Development Fund
ESAF	Enhanced Structural Adjustment Facility
FAO	UN Food and Agriculture Organisation
FSU	EC Food Security Unit
GIP	General import programme
GoM	Government of Mozambique
HIPC	Heavily indebted poor countries
INDER	Rural Development Institute
INGC	National Institute for Disaster Management
MAE	Ministry of State Administration
MICOM	Ministry of Industry and Trade
MINADER	Ministry of Agriculture and Rural Development
MoH	Ministry of Health
MPF	Ministry of Planning and Finance
MS	Member States of the European Union
NAO	National Authorising Officer
NGO	Non-governmental organisation
NIP	National Indicative Programme
ODA	Official development assistance
PARPA	Action Plan for the Reduction of Absolute Poverty
PFP	Policy Framework Paper
PIU	Programme implementation unit
PMO	Prime Minister's Office
PMU	Programme management unit
PoDe	Enterprise Development Programme (World Bank)
PROAGRI	National Programme for Agricultural Development
PRSP	Poverty Reduction Strategy Paper
RDP	Rural Development Programme
ROCS	Roads and Coastal Shipping Project
SIP	Sectoral import programme
STAE	Technical Secretariat for Electoral Administration
TA	Technical assistance / technical assistant
UNHCR	UN High Commissioner for Refugees
WHO	World Health Organisation
ZAMWAT	Zambezi Valley Integrated Water Resources and Water Supply Project

Executive summary

This is the executive summary of the Evaluation of the EC's Country Strategy in Mozambique for the years 1996-2000. It is part of a series of Country Strategy Evaluations of EC aid.

The report is based on a mission to Mozambique that took place from 8 to 22 July 2000. The mission involved an extensive review of Delegation files, available mid-term reviews and evaluations, and interviews with Delegation staff, other donors, Government officials, and civil society organisations.

Ch. 1 focuses on the *relevance* of the EC's country strategy in Mozambique. Key aspects of the country context are reviewed and used to assess the relevance of the EC's country strategy (before implementation). Ch. 2 looks at the *performance* of the EC's programme in Mozambique, focusing principally on its impact with respect to the EC's priority objectives. Ch.3 looks at key factors which *explain the performance* of the programme. Ch. 4 presents *recommendations*.

1. Relevance of the strategy (p. 1)

Country analysis

1. **Political situation.** Mozambique is considered a success story of a transition from war to peace. It has begun the difficult process of moving from a centralised and authoritarian political system to democratic institutions and the rule of law. However, the process is fragile and requires support.
2. Elections in 1994 and 1999 confirmed FRELIMO in Government. However, the opposition party (RENAMO) has not recognised the validity of the 1999 election results, and has recently declared that peace is fragile.
3. Governance and corruption are key constraints. A professional civil service has never been able to develop, and there is resistance to the de-compression of salaries. Budget management continues to be very poor, and there are extremely weak internal and external controls. Civil service capacity outside Maputo is even weaker. On Transparency International's Corruption Perceptions Index (year 2000), Mozambique scores 2.2 on a scale from 0 (highly corrupt) to 10. The Government's human rights record is also poor in a number of respects.
4. There have been many recent plans to reform the public sector, but it has been difficult to implement policies where these affect vested interests.
5. High dependence on foreign aid (ODA is 28% of GNP) has led the Govt. to give considerably more attention to donor demands (particularly from the BWI) than to its own citizens and taxpayers. Donors are beginning a process which is aimed at encouraging the Govt. to consult more widely and at allowing more scope for Govt. ownership, but until now policies have not been sufficiently discussed outside Govt. (though consultations are beginning on the Action Plan for the Reduction of Absolute Poverty, PARPA).
6. Civil society is still relatively weak but independent groups are emerging (e.g. Human Rights League, the LINK network of NGOs, etc.) However, donors appear to have a very weak knowledge of the dynamics of civil society in the country. Much donor assistance has been channelled through international NGOs, with limited support to civil society. Parliament offers potential ground for the search for national dialogue and consensus.
7. **Economic situation (p.6).** The country is rich in natural resources. It is considered a success story because of recent high growth, low inflation, a large privatisation programme, and 13 years of structural adjustment programmes with the BWI.
8. However, the economic successes could be reversed or remain fragile. There is an extremely thin Govt. capacity for economic

management. Fiscal equilibrium depends on high external transfers from donors. The economy remains highly vulnerable to weather-related shocks, while private sector and foreign investment is still deterred by red tape, corruption, and political conflict.

9. **Social developments (p.7).** Mozambique's per capita income is among the lowest in the world. However, monitoring of poverty has only recently begun, and there is no firm data on the evolution of poverty during the reform programme.

10. The Govt. recently prepared a poverty reduction plan (PARPA), but its implementation will be seriously affected by the weak civil service capacity, including all stages of the budget process.

11. There has been some progress in reducing gender inequality, but problems remain. There is evidence of severe environmental degradation.

12. **Donors in Mozambique (p.10).** Given the weaknesses in Govt., the BWI have led the reform process. This has been difficult on many occasions. The BWI is now urging the Govt. to exercise greater ownership of the reform programme, but this is complicated by the Govt.'s capacity and by the use of salary top-ups by donors.

13. There has been some progress in sector-wide approaches, but there is consensus that no reforms are possible without effective public sector reform. Improved governance and the rule of law were key issues at the June 2000 Consultative Group meeting.

Relevance of EC strategy to country needs (p. 12)

14. **Preparation of the strategy.** During preparation of the EC country strategy in 1995-96, consultations with Govt. were affected by the EC's low profile in the country, difficult relations between the EC and the NAO, and limited Govt. capacity.

15. Important concerns were raised in consultations with EU Member States,

particularly on the weak links between the EC's country analysis and the proposed unfocused strategy.

16. Consultations with other donors were limited, and there were none with civil society.

17. **Assessing the strategy documents (p. 13).** The CSP had weak analysis of country constraints, but contained a frank assessment of past EC interventions.

18. The strategy specified "integrated community development" as the focal area, and "complementary focal sectors" (democracy, private sector, transport). In practice, this avoided making any sectoral choices, allowing continued involvement in many sectors through a large number of small interventions. Dispersion was reinforced by the multiplicity of instruments.

19. **Preparation of the next strategy (p. 15)** is facilitated in Mozambique by the EC's assessments of the status of its portfolio and country analyses, in the form of Annual Reports and Country Reviews. The EC also appears ready to discuss country analyses with other donors, to work together on strategy preparation with Sweden, and to consult civil society. However, the EC's strategy will be prepared before the PRSP is completed.

The EC's programme (p. 15)

20. More than € 1 billion of EC aid has been disbursed in Mozambique, which signed the Lomé Convention in 1984. In recent years, there has been a transition from rehabilitation to longer-term development assistance. The 8th EDF NIP is for € 214.5 million. In the past, Mozambique has received substantial sums through food aid, rehabilitation budget-lines, and Article 254 and 255 funds. Currently, the major sources of non-NIP funds are the Structural Adjustment Facility and the Food Security budget-line.

2. Performance of the EC's programme (p. 18)

The analysis focuses on 7th EDF interventions, and on the likely impact of 8th EDF interventions.

Governance and the rule of law

21. The EC has provided important logistical (but not institutional) support for 3 elections that has been appreciated by other donors. But it has provided little support to a more transparent and accountable public expenditure process or to empowering civil society for improved governance.

22. EC structural adjustment programmes in Mozambique have not improved governance. While the latest programme (GIP3) did introduce conditionalities on public expenditure management, it was seen as insufficiently coordinated with the Govt. and donors.

23. The road sector provides an example of how donor support has allowed significant investment but without commensurate improvements in management and accountability.

24. The EC has worked extensively with international NGOs, but this has done little to empower local communities.

Poverty reduction (p. 21)

25. The EC has targeted areas with high potential for poverty impact, but the dispersion of the programme, a weak focus on institutions, and difficulties in implementation have limited its impact. Monitoring of poverty benchmarks has been very weak. A recent increase in focus on institutions may increase the poverty impact.

26. While the goal of structural adjustment support was to strengthen social services to the poor, attention has been focused on inputs (expenditure in the social sectors) rather than on improving budget processes or outcomes. Given the weakness of budget planning and controls and the low capacity of the public sector, structural adjustment support is likely to have had a low impact on poverty (though it may improve with the move to a joint donor approach).

27. In agriculture, the progress that has gradually been achieved towards a sector

approach indicates potential for an impact on poverty. But obstacles to reform remain very difficult to overcome, and the focus of PROAGRI (and Food Security budget support) is still insufficiently linked to other sectors, to the budget process, and to poverty reduction. The impact of budget support at household level is unclear, given the limited effectiveness and efficiency of Govt. The Govt. has strongly argued that the EC's agricultural subsidies to Malawi have a negative poverty impact on Mozambique.

28. EC road projects have a high potential impact, but have been severely limited by delays, implementation difficulties and poor coordination, and by the weak focus of ROCS on poverty. The Govt. has strongly argued that EC delays have slowed down the north-south road link, with significant implications for poverty and politics.

29. EC health sector support has been seriously delayed, limiting its poverty impact. However, the impact may improve with moves towards a sector-wide approach.

30. The rehabilitation programme was dispersed, with relatively rapid physical construction projects implemented largely by international NGOs. Project selection lacked a strategy, and did not include either poverty impact assessments or gender mainstreaming. It has been replaced by a more integrated (but complex) intervention (RDP) – linking NGOs to central and provincial Govt. planning and budgeting – and by a gradual move to more strategic support through NGOs, both of which should strengthen the impact on poverty.

Environment and gender (p. 26)

31. There has been weak attention to gender issues in the design of EC programmes. There has been some recent increase in focus on gender in the design of the RDP.

32. The environment also remains a low priority in the EC programme. There has not been a systematic review of the likely environmental impact of EC projects.

3. Explaining the EC's performance (p. 28)

Strengthening institutions

33. **Central government.** Aid has supported a significant increase in Govt. expenditure without providing commensurate support to the capacity to manage and account for these funds.

34. Indeed, donors (including the EC) have contributed to weakening public administration by using semi-autonomous project management units and by recruiting Govt. officials to work in their own projects, through the use of salary top-ups as incentives and through consultancies. Recently, the EC Delegation has had a consistently strong policy to phase out salary top-ups in its programmes, but it is unclear how many donors will follow the EC.

35. *Structural adjustment.* EC support to public expenditure management has been weak:

- There have been difficulties in the transparent management of funds, and GIP1 and GIP2 did not support public expenditure reforms.
- GIP 3 included conditionalities on public administration and budgetary reforms, but it was ultimately not successful – conditionalities were outside the BWI programme and there was little Govt. ownership.
- TA to the Treasury has not been well coordinated with Swedish TA to Accounting, and is unlikely to have a large impact.
- Support may become more effective if the EC strictly follows the common approach to budget support developed by a group of donors.

36. In a number of sectors, EC interventions have had a weak institutional focus, though there have been some improvements:

- *The 'rehabilitation programme'* did not focus sufficiently on institutional support.
- *Elections.* EC support has not helped to build sustainable capacity, focusing

instead on the short-term smooth running of each electoral process.

- *Roads.* The EC's approach has been to leave policy and institutional issues to the World Bank. However, there was slow progress in building capacity (including financial controls) in DNEP or ANE, and the autonomy of the Road Fund is still unresolved. This (together with internal EC problems) has affected the implementation of EC projects (including long delays). The EC has recently increased its capacity to monitor institutional developments, and has made new projects conditional on an adequate institutional environment (particularly maintenance).

37. *Move to sector-wide approaches.* A number of EC interventions are recently supporting sector-wide approaches, but their success depends strongly on EC capacity:

- *Agriculture.* The EC's performance is strongest in agriculture, where it has substantial capacity. Progress in PROAGRI is slow, and the continued use of non-transparent salary supplements by donors is seen as the main obstacle. However, the EC has won the respect of other donors for the quality of its inputs, and it has been nominated to chair the donor working group.
- The EC has been able to increase its involvement in policy dialogue in the *health* sector. Interventions in *water* and *education* appear more difficult.

38. **Civil society and local government (p. 37).** The 'rehabilitation programme' (implemented largely through international NGOs) was fragmented and lacked a strategy, which affected its sustainability (with weak involvement of local communities).

39. However, the EC appears to be learning from its experiences and has introduced the Rural Development Programme, which is innovative but complex. The success of the RDP is likely to depend on the quality of implementation (including the strength of the Steering Committee), progress in sector-

wide approaches, and capacity at provincial and district level.

40. The EC (through the FSU and the NGO Unit) has also tried to provide more strategic support to NGOs, e.g. through the use of Calls for Proposals since 1997.

41. The EC has also been preparing a discussion paper on a framework for cooperation with NGOs. This is an important exercise which shows serious analysis and a willingness to search for innovative modalities of support. It also proposes a timetable for a wide-ranging consultation with civil society.

Donor coordination (p. 40)

42. **Weak Govt. coordination capacity.** The Govt.'s weak capacity for aid coordination (including a weak budget process) significantly reduces the impact of donor programmes. Different donors have different Govt. counterparts, which do not communicate effectively with each other.

43. **Donor competition, and slow progress to a common approach (p. 41).** While donors collaborate in working groups and sector-wide approaches, there is intense donor competition. In particular, there is very little transparency among donors in the salary supplements they pay to Govt. staff, which weakens public administration, makes it difficult to assess real Govt. ownership, and affects the trust between donors.

44. There is a multiplicity of donor groups. Some are effective. A group of donors working on budget support has provided a good model of efficient coordination, working towards developing a common approach and common funding mechanism for budget support.

45. However, important differences in donor strategy remain. The Consultative Group provides an important forum for donor discussions, though donors failed to agree a common statement for the June 2000 meeting.

46. **EC contribution: poor in past, but improving significantly (p. 42).** In the past the EC had a very low profile, even though it was a major donor. Since the arrival in 1998

of a new Head of Delegation, however, coordination has improved significantly, and there appears also to have been a small improvement in relations with the NAO.

47. Donors appreciate the increased quality of EC participation in a number of donor working groups. The EC has also recently promoted the reactivation of the public administration reform working group, but it has limited capacity or past experience for this.

- *Structural adjustment.* GIP3 was insufficiently coordinated with other donors. The EC should integrate its next programme into the common approach and procedures recommended by the group of donors working in this area.

- *Roads* – poor coordination with the World Bank, partly because WB task managers are based in Washington, partly because of the EC's limited capacity. The EC's perception is that in some cases the WB expects the EC to follow its lead without much consultation.

- *Agriculture* – the capacity of the Food Security Unit has been instrumental in making the EC a strong lead donor. Progress has been made in establishing a donor fund with common procedures.

- *Health* – in the past the EC followed a project approach. However, the 1995 Zambézia programme was consistent with the emerging sector approach but this suffered serious delays. The EC has now increased its capacity in the sector. It has signed the May 2000 donor Code of Conduct, and is phasing out salary top-ups to 30 Government posts.

48. The EC has received praised for its willingness to support other donors' interventions, including through co-financing (e.g. in elections), even when it has been close to formulating an intervention on its own (e.g. private sector development). It has also received praised for its support for a more transparent approach to salary top-ups for Govt. officials.

Commission resources and procedures (p. 47)

49. Even with recent improvements, the public image of the EC in Mozambique is one of a slow donor with complex procedures and long delays. This is in part the result of the weakness of Govt. institutions, but it is also because the EC developed a very dispersed programme, with very limited staff capacity.

50. Serious delays have received most publicity in the road sector, though they have also received public criticism in the health sector. In particular, long delays and excessive cost over-runs have been identified in roads programmes in Sofala and Beira-Inchope. Delays in structural adjustment support have created difficulties in budget and cash management.

51. The EC's resource and procedural constraints (see below) have also resulted in weaknesses in project design, and have made it difficult to give attention to donor coordination or to focus on priority objectives.

52. **Complex programme, limited focus (p.49).** The current Head of Delegation received a programme with a very large number of small projects. Some greater focus has been achieved, e.g. with the ending of the 'rehabilitation programme', but some factors are at the same time increasing the demands on staff:

- increasing attention to institutions
- demanding support for elections
- the spread of food security activities
- emphasis on education in the RDP
- involvement in the water sector

53. **Staff over-stretched in most sectors (p. 51).** The Delegation has only 7 European professional staff to manage a large programme, there are still relatively difficult relations with the NAO, and support missions from Headquarters appear limited.

54. However, the Head of Delegation has emphasised the importance of matching staff

capacity to new commitments. Capacity has been particularly enhanced through TA in the FSU and NGO Unit (though a clearer distinction between policy and implementation functions could be found, and the units' cost-effectiveness may need to be considered). The Delegation's capacity has also been reinforced in the health sector and in financial control, but the EC is only beginning to reinforce capacity in roads.

55. **Time-consuming procedures (p. 52).** The complexity of EC procedures is compounded by the pressure to disburse funds quickly, leading to the identification of interventions with a high disbursement potential (e.g. road-building) rather than those that might contribute more to institutional strengthening (though programmes have nevertheless been marked by long delays).

56. Diffuse accountability makes coordination with Govt. and with other donors more difficult, and contributes to poor decisions. The use of different instruments also over-stretches the capacity of EC staff.

57. The EC has recently shown that flexibility in procedures can allow for speedy preparation and implementation of projects. In the 1999 elections, a number of derogations were allowed which enabled the programme to deliver on time. Accelerated procedures are also used in the post-flood reconstruction programme in Gaza.

58. **Weak learning systems (p. 56).** The EC has not systematically learnt from its interventions. Monitoring has tended to focus on 'physical' results rather than impact, though monitoring of NGO projects has improved. While there have been many evaluations of the 'rehabilitation programme', several major programmes have not been evaluated (e.g. structural adjustment, road projects). Moreover, in a context of very weak Govt. financial controls, audits are not yet carried out systematically.

4. Key recommendations (p. 57)

These recommendations (to help prepare the Country Support Strategy) take into account the Cotonou Agreement and its emphasis on good governance, on a new partnership that embodies the participation of civil society, and on poverty reduction as the central objective of the new partnership. They also take into account the Commission's guidelines on the 9th EDF programming process.

59. **Ensuring relevance of the strategy.** The EC's country support strategy should focus firstly on good governance and secondly on the reduction of poverty.
60. The strategy should be closely linked to monitorable benchmarks in institutional reform (e.g. specific progress in public sector reform) and the Govt.'s progress in reducing poverty (e.g. improvements in public service delivery, as measured by expenditure tracking studies), which should trigger a 'high case' scenario if carried out.
61. The strategy should take into account the PARPA, but should do so critically, given Govt. capacity constraints.
62. The strategy should include systematic consultation with different elements of civil society and political parties – not only in preparing the strategy but also in monitoring its implementation.
63. **Increasing the focus of EC aid (p. 58).** The EC should focus on 2-3 *narrowly defined* areas, co-financing other donors' interventions in other areas. Suggested principal areas of intervention:
- Budget support, linking structural adjustment support to sector-wide approaches in agriculture and health
 - Roads, but strengthening the focus on institutions and taking into account serious problems experienced in the past
 - Governance and more wide-reaching support for civil society.
64. The EC should re-consider proposed interventions in water, education, fisheries, and private sector development (though budget support would continue indirectly to support all of them).
65. **Budget support, agriculture, and health (p. 58).** EC structural adjustment support should strictly follow the approach and procedures proposed by the group of donors
- working on the harmonisation of budget support.
66. Structural adjustment support should be better coordinated with EC budget support to agriculture (and sector support to health). This should help the integration of sector reforms with overall public sector and budget reforms. It should involve working towards common procedures and common conditionalities.
67. Reforms should target existing Govt. structures (avoiding the use of PMUs), should phase out salary supplements (top-ups), and minimise the use of international consultants.
68. Budget support (with other donors) should include simple impact indicators and expenditure tracking surveys.
69. **Road sector (p. 59).** The road sector could continue as a major focus, even though implementation has been weak. But the EC should reinforce its capacity for implementation, and strengthen its focus on institutions, making interventions conditional on progress (e.g. in provisions for maintenance).
70. Coordination with the World Bank should be increased as a matter of urgency.
71. The EC should focus more on the poverty, HIV/AIDS, and environmental impacts of road projects.
72. **Governance and civil society (p. 60).** The EC should design and implement a strategy to strengthen civil society, as an indirect means of improving governance. This may require the rationalisation of staff resources (using the NGO Unit and the NGO section of the FSU), and should be done jointly with other donors.
73. Support for civil society could be directed to a wide range of organisations (community-based organisations, advocacy groups, governance 'watchdogs', local NGOs, local governments), but should be

channelled through *intermediary funding organisations* with operational independence from the Commission and transparent funding criteria. This would allow the EC to support even small organisations across many sectors, while simplifying its own administration.

74. The EC should give careful attention to the implementation of the RDP, ensuring the capacity of the Steering Committee, the quality and accountability of the PMU, and transparency in the Call for Proposals.

75. The EC should consider further support to elections (jointly with other donors), but focusing on institutional sustainability. Support to justice should be through co-financing other donors' interventions.

76. **Improving aid coordination (p.61).** The EC should continue its work of trying to persuade Govt. and donors to be transparent in the use of salary supplements. These should be phased out, and a pay reform should be implemented.

77. The EC and other donors should jointly support Govt. budget planning and reform of the Govt.'s capacity for donor coordination (including the NAO office). Ideally, external assistance by all donors should be coordinated by a single Govt. unit with a direct link to budget planning and implementation.

78. The EC is encouraged to collaborate with Sweden in preparing its country support strategy, and the EC's country analysis should also benefit from the analysis of other donors (e.g. World Bank, UNDP).

79. The EC should work towards the rationalisation of donor groups, and should only lead groups where it has sufficient capacity (e.g. remain in agriculture but reconsider lead in public administration or budget support).

80. The EC should only provide institutional support to Govt. departments through joint pools of TA.

81. The EC should support joint macroeconomic monitoring and joint analysis of civil society. Systematic consultation on project preparation and evaluations should be piloted.

82. **Using EC resources and procedures more efficiently (p. 62).** The EC should clarify the role of the FSU and NGO Unit vis-à-vis the Delegation and Headquarters, in the context of on-going restructuring. It is important that there is clarity in the allocation of policy and implementation functions, and a cost-effectiveness analysis is required.

83. The EC is commended and encouraged to continue its recent efforts to accelerate the delivery of support (though quality and sustainability should not be compromised).

84. Simpler and more flexible procedures are required, e.g. through a cautious deconcentration of authority from Headquarters to the Delegation, systematic and rigorous ex post audits, and service delivery standards.

85. *Specialist skills* should be reinforced within the Delegation and the Delegation should be provided with rapid funds to support its own technical capacity (including support not linked to specific interventions). Projects for which a Delegation staff member is responsible should all be related to one another.

86. A position of *programme administrator* should be created, to focus on financial administration and programme performance. The EC should strengthen its capacity by promoting the *pooling of technical staff* with Member States and other donors. A *quality support group* at Delegation level should be introduced (possibly including experts from outside the EC).

87. Jointly with other donors, the EC should carry out analytical work which is not directly linked to the preparation of new projects.

88. The EC should reinforce independent monitoring and evaluation, and carry out systematic audits of its interventions. Civil society and other donors should contribute to these exercises.

Table of evaluators' recommendations
<p>A) Ensuring relevance of the strategy: the EC's strategy objectives should be good governance and poverty reduction. The strategy should be closely linked to monitorable benchmarks in institutional reform and in the Government's progress in reducing poverty, which should trigger a 'high case' scenario if carried out. The EC strategy should take into account the PARPA and Government capacity constraints, and should include systematic consultation with civil society and political parties.</p>
<p>B) Increasing the focus of EC aid:</p> <ol style="list-style-type: none"> i. the EC should focus on 2-3 narrowly defined areas of intervention, co-financing other donors' interventions in other areas. ii. suggested principal areas of intervention: (1) budget support, linking structural adjustment support to sector-wide approaches in agriculture and health, (2) roads, but strengthening the focus on institutions, (3) governance and more wide-reaching support for civil society. iii. the EC should reconsider proposed interventions in water, education, fisheries, and private sector development (though budget support would continue indirectly to support all of them).
<p>C) Budget support, agriculture, and health: EC structural adjustment support should strictly follow the approach and procedures proposed by the group of donors working on the harmonisation of budget support. Structural adjustment support should be better coordinated with food security budget support and with EC support for the health sector approach, which should involve working towards common procedures and common conditionalities. Reforms should avoid the use of PMUs, should phase out salary top-ups, and minimise the use of international consultants. Budget support (with other donors) should include simple impact indicators and expenditure tracking surveys.</p>
<p>D) Road sector: The EC should reinforce its capacity for implementation, and strengthen its focus on institutions, making interventions conditional on progress (e.g. in provisions for maintenance). Coordination with the World Bank should be increased as a matter of urgency. The EC should focus more on the poverty, HIV/AIDS, and environmental impacts of road projects.</p>
<p>E) Governance and civil society: The EC should design and implement a strategy to strengthen civil society, as an indirect means of improving governance.</p> <ol style="list-style-type: none"> i. <i>Support for civil society</i> could be directed to a wide range of organisations (community-based organisations, advocacy groups, governance 'watchdogs', local NGOs, local governments), but should be channelled through <i>intermediary funding organisations</i> with operational independence from the Commission and transparent funding criteria. ii. <i>Direct support for governance.</i> The EC should consider further support to elections (jointly with other donors), but focusing on institutional sustainability. Support to justice should be through co-financing other donors' interventions.
<p>F) Donor coordination: the EC should :</p> <ol style="list-style-type: none"> i. continue persuading Government and donors to be transparent in the use of salary supplements. ii. support (with other donors) Government budget planning and reform of aid coordination (including the NAO office). Ideally, all external assistance should be coordinated by a single unit. iii. in preparing the country support strategy: collaborate with Sweden, and build on the country analysis of other donors (e.g. World Bank, UNDP). iv. work to rationalise donor groups, and only lead groups where it has sufficient capacity. v. only provide institutional support to Govt. through joint pools of TA. vi. support joint macroeconomic monitoring and joint analysis of civil society. Systematic consultation on project preparation and evaluations should be piloted.
<p>G) Resources and procedures: the EC should:</p> <ol style="list-style-type: none"> i. clarify the role of the FSU and NGO Unit, ensuring clarity in the allocation of policy and implementation functions, and carrying out a cost-effectiveness analysis. Consider creation of a single unit to support civil society. ii. continue efforts to accelerate the delivery of support. iii. simplify procedures, including deconcentration and ex post audits. iv. reinforce specialist skills in the Delegation. v. create a programme administrator position, pool technical staff with other donors, and introduce a Delegation-level quality support group. vi. carry out systematic monitoring, evaluations and audits (with other donors and civil society).

1

Relevance of the strategy

The methodology applied in this evaluation follows that applied in all previous EC Country Strategy Evaluations. The rationale for this methodology reflects the up-to-date understanding of what makes aid work,² that aid works best where it has clear objectives, strengthens the policies and institutions of governments that are committed to reform, and is closely coordinated with other donors. Where a government has relatively strong institutions and policy-making capacity, aid is most effective if it supports these. Where institutions are weak, aid is most effective if it helps strengthen institutions before substantial funds are channelled through those institutions.

*Chapter 1 assesses the relevance of the EC's strategy. The **first part** of the chapter analyses the country context. Since the strength of individual Government policies and the likelihood of their effective implementation depend on the general strength of institutions and commitment to reform, the assessment here is a broad assessment of these, rather than a presentation of individual policies. The **second part** of the chapter is an *ex ante* assessment of the relevance of the EC's strategy, assessing how the strategy was prepared, and whether it was an appropriate response to the country context.*

A. Country analysis

Key characteristics of Mozambique are reviewed to identify factors which should underlie the EC's strategy choices. The analysis includes both factors which were present when the last Country Strategy Paper was prepared (1995-96), as well as more recent developments.

Political situation and governance

Mozambique is considered a success story of a transition from war to peace. It has begun the difficult process of moving from a centralised and authoritarian political system to democratic institutions and the rule of law. However, the process is fragile and requires support.

Successful transition from war to peace

Mozambique achieved its independence from Portugal in 1975. At independence, the country was marked by a highly dualistic economy, among the worst social indicators in the world, and a population which had received very little education. The guerrilla movement FRELIMO, which came into power, proceeded to introduce a one-party state and a controlled economy. After years of incursions from Rhodesia, an internal war started in 1981.

In 1987, the Government started to introduce market reforms (within a BWI programme). A peace agreement was reached in 1992. Elections in 1994 and 1999 confirmed FRELIMO in Government. This was the beginning of what has been considered as a successful transition from war to peace and as the most important achievement of Mozambique.

However, the opposition party (RENAMO) has not recognised the validity of the most recent election results (December 1999), and has recently declared that peace is fragile. RENAMO has few resources but managed to obtain about 48% of the votes, and a majority in 6 out of 11 provinces, particularly in the north and centre of the country. This support is linked partly to

² See, for example, World Bank (1998a) and EC (1998c).

historical factors, but may also reflect the perception that the country's high growth rates have not sufficiently benefited all the population – regional inequality is high.

Capacity constraints in public administration

As a result of historical factors, the executive retains extensive power, high discretionality and poor accountability. A professional civil service has never been able to develop, in part because of the war, but also because donor support has not focused on the extremely low remuneration of Government employees. Moreover, donors have introduced practices that undermine further an already weak civil service.³ Capacity constraints have reached such a level that most donors interviewed noted that *no policy can be effectively implemented* without a significant increase in public sector capacity. Only 3% of civil servants have tertiary degrees and only 20% have higher than a 6th grade education.

In this context, despite recent legislative changes, budget management continues to be very poor (with off-budget expenditures still significant) and there are extremely weak internal and external controls (through the Inspector General and Administrative Tribunal).⁴ Moreover, there is political resistance to the de-compression of salaries, which is needed to improve incentives for qualified public employees and to facilitate the phasing out of non-transparent salary supplements by donors to Government officials. Decompression in 1998 and 1999 was undermined by across-the-board wage increases (35%) in 1999.

Civil service capacity outside Maputo is even weaker, and local government has not developed much as yet – the first local elections, in 1998 (in 33 municipalities), were not contested by the political opposition, though they may nevertheless eventually contribute to greater political accountability.

Governance and corruption are key constraints

The extreme weakness of the Government and the budget process contributes to the difficulty of ensuring that public expenditure is used efficiently and targets the poor. It also affects the collection of revenues,⁵ and contributes to the fact that “red tape and associated corruption continue to impede business”.⁶

Mozambique: Basic facts

Population:	17.3 million
GNP per capita:	US\$ 230
Growth 1990-99:	6.3 % per annum
Aid (ODA) as % GNP:	28 %
Debt (present value) % GNP:	74 %
Gini coefficient:	39.6
Human Devel. Index:	0.341

Source: World Bank (2000f) and UNDP (2000a).

³ Evaluations show that donors have undermined the civil service by creating PMUs, giving salary top-ups to civil servants, and recruiting the most qualified civil servants. See World Bank (1998b), p.37 and “Some donor (including Bank) practices ... have been counterproductive, weakening the same ministries responsible for the investment and services the aid activities are designed to strengthen” (p.44).

⁴ See a recent detailed review (Nordic Consulting Group 2000) commissioned by a group of 7 donors involved in budget support. A recent report has also been prepared by an IMF mission on Fiscal Transparency. Earlier reviews are still mostly valid: Financial Management Assessments carried out by USAID in 1997 and 1998 covering financial management capabilities, internal control systems and contracting capabilities of the Government; and the World Bank Fiscal Management Review (begun in December 1995, status report in June 1996).

⁵ A foreign company has been contracted to carry out this activity, though with poor results as yet in building local capacity.

⁶ World Bank (2000c), p.6.

Donors have identified corruption and weak governance as major constraints on development.⁷ On Transparency International's Corruption Perceptions Index for year 2000, Mozambique scores 2.2 on a scale from 0 (highly corrupt) to 10 (highly clean) (compared to 1.2 for Nigeria and 5.0 for South Africa). The Government has recently committed itself to passing anti-corruption legislation.

But progress in public administration reform is difficult

There have been many recent strategies and plans to reform the public sector, e.g. Reform of the Mozambican Public Sector Strategy and Actions (August 1998), a 1998 topping-up Survey, and a recently proposed action-oriented programme.⁸ Similarly, initiatives to improve budgetary management and controls range from the first Public Expenditure Review in 1989 to the 1998 Expenditure Management Reform Strategy.⁹

However, it has been far easier to identify the problem and prepare initiatives than to implement policies where these have clear political costs and affect powerful interests. This is not surprising. A recent global evaluation of civil service reform programmes carried out by the World Bank between 1980-1997 confirms that success is very difficult and requires a sophisticated understanding of political factors.¹⁰

The Government has recently launched further initiatives in this area, including an Inter-Ministerial Commission chaired by the Prime Minister to coordinate Public Service Reform (March 2000), and a Technical Unit for support (April 2000).¹¹ However, while most donors would want to be optimistic about new initiatives, past experience suggests that much support and monitoring will be needed. Issues of salary de-compression, salary supplements by donors, and the sequencing of decentralisation and capacity-building, will need to be addressed carefully to improve the chances of success (see Box on p.4).

Consultations with civil society are to begin

The development of a democratic political system in Mozambique is affected by the low levels of literacy, the geographical fragmentation of the country and the weakness of opposition political parties. The fact that Mozambican public finances are highly dependent on foreign aid has contributed to a situation in which the Government has spent considerably more time being attentive to donor demands (particularly from the BWI) than being attentive to and consulting its own citizens and taxpayers. Conditionalities in BWI programmes, as in many other countries, have been too numerous and detailed.

However the BWI, and donors more generally, are beginning a process which is aimed at encouraging the Government to consult civil society (possibly including the political opposition) and the private sector, and at allowing more scope for Government ownership of the reform programme. Debt relief (Enhanced HIPC Initiative) is also conditional on the Government adopting a participatory poverty reduction strategy.

⁷ For example, the opening statement to the Consultative Group in June 2000 noted that a number of donors were increasingly concerned "that opportunity for corruption exists in bureaucratic red tape, onerous regulations, and weak enforcement mechanisms". See also World Bank (2000c), p.14.

⁸ World Bank (2000a).

⁹ World Bank (2000b) lists the following: plan for an overhaul of the public accounting system, a system for training in the public service, and new civil service regulations (with performance standards and improved incentive mechanisms (p.15). Importantly, the 1998 budget accounts were officially closed and submitted for auditing, and the quarterly budget execution reports were published beginning in 2000.

¹⁰ World Bank (1999c).

¹¹ Similar to a committee formed in 1998.

Some issues for progress in public administration

Difficulties in achieving the de-compression of wages. Low wages in the public administration (compared to both the private sector and what donors offer) make it very difficult to recruit (retain) competent professionals. Recent de-compression exercises have been undermined by a significant across-the-board increase in public employees' salaries.

Uncertain Government (and donor) commitment to phasing out salary top-ups to Government officials. Recent statements by the deputy minister of MAE to donors and interviews with senior officials suggest that the Government is not persuaded of the negative effects of salary supplements to Government officials.¹ Donors are also reluctant to phase out a system through which they can recruit senior Government officials to work as consultants on their individual projects (with salary top-ups or short term contracts).

Unclear priority and sequencing of reforms. A recent statement from MAE suggests that they will try to work on decentralisation and public administration reform at the same time. There is a risk that there will not be sufficient capacity to address both issues at the same time.²

1. On the negative effects of these policies, see Boxes on p.37.

2. Recent studies suggest that the "success of decentralisation programmes in securing pro-poor outcomes depends in important ways on the role of central governments", Moore & Putzell (1999), p.22.

...but until now, Government policies have not been sufficiently discussed outside Government. The BWI assessment of the Interim Poverty Reduction Strategy Paper noted that consultations were the weakest part of the PARPA as yet.¹² The Government will face capacity constraints in increasing its consultations with civil society. However, this wider consultation is slowly beginning to happen (see Box on p.5).¹³

Parliament offers potential ground for the search for national dialogue and consensus. Parliament has been affected by the same capacity weaknesses as other Mozambican institutions. However, some donors are providing technical support and there is some evidence of increased participation in the legislative and policy-making process (e.g. the number of proposals initiated by Parliament,¹⁴ and interventions on cashew legislation). Moreover, in late 1998 and early 1999 changes in the electoral law were possible, on the basis of broad consensus. Political parties may require institutional support in order to contribute to a democratic debate and search for consensus.

Civil society is still relatively weak but groups are emerging

Civil society could also play an important role in ensuring the consolidation of the transition to peace and to a more democratic political system involving more accountability and less corruption. Recent studies of civil society¹⁵ indicate that in minimally institutionalised states, civil society groups have less incentive to organise. In Mozambique, groups have emerged linked to the Government, and some local NGOs have emerged linked to humanitarian aid. More independent groups such as the Human Rights League, the private sector Federation of Commercial Associations (CTA), and a network of NGOs (LINK) have begun to play an important role. Similarly, the Catholic Bishops Conference played a role ensuring political stability during past elections.

¹² World Bank (2000d). The Interim PRSP was a condition for achieving the decision point on the Enhanced HIPC Initiative.

¹³ However, it is reported that two of the key Government officials from the Ministry of Planning and Finance (including the Director of the Budget Department) who were closely involved in the consultations on the PARPA (see Box on p.5) subsequently left the Government.

¹⁴ Whereas no laws were initiated in Parliament in 1995, 56% of bills were in 1999.

¹⁵ Moore & Putzell (1999).

Consultation for the PARPA

The first national-level presentation of the PARPA (and of the Provincial Poverty and Human Development Profiles) was made on 30 June 2000 (following a series of provincial seminars). The Government welcomed comments on the PARPA, and the seminar appears to have allowed a wide-ranging discussion. However, the level of attendance appears to have been low among many of the private sector representatives, bilateral donors and civil society organisations (especially international NGOs) which had been invited.

In the discussions, participants agreed that the PARPA was a good starting point, but raised some concerns for the Government to consider, including:

- how inter-ministerial planning and coordination would be achieved
- how NGOs could be brought in as partners, not simply to assist in implementation
- how the private sector would be involved in the PARPA process
- how HIV/AIDS could be addressed as a cross-cutting issue, not just in the Ministry of Health
- how asymmetries between regions of the country could be addressed
- how disaster preparedness should be planned
- how PARPA could be systematised, with dissemination, monitoring, evaluation and up-dating
- how PARPA could be improved through further analysis of the causes of poverty and ways to tackle it

Source: Information from a DFID note.

The Government has begun to exercise more control over the previously almost autonomous (and un-coordinated) work of international NGOs. However, the Government still lacks a clear policy on how to relate to local NGOs and civil society, which could be attributed both to its limited experience in consulting civil society and to the political polarisation that has existed in the country.

Donors appear to have a very weak knowledge of the dynamics of civil society in the country. In the past, donor assistance was mostly channelled through international NGOs and there is some evidence (particularly in the EC programme) that this support did not reach civil society effectively (see section 3.A.ii below). Local NGOs also do not appear to have received much direct support from donors or training from international NGOs (see Box on p.37). However, some donors are beginning to realise the importance of civil society and are carrying out consultations.¹⁶

Human rights¹⁷

The Government has generally respected freedom of the assembly and of religion, and elections are generally regarded as free and fair. While there are reports of the harassment of some independent journalists and while in practice much of the media is Government-owned, media criticism is generally tolerated and the number and diversity of independent media has increased. A new Land Law was introduced in 1997, which in particular permits women to have rights over land, though it is still unclear how effectively the law will be implemented.

However, in a number of respects, the Government's human rights record is poor. There are reports of the police carrying out extra-judicial killings, torturing and beating persons in

¹⁶ The World Bank has monthly meetings with a group of local and international NGOs, and has had some consultations with civil society and the private sector for its most recent Country Assistance Strategy. However, in comments on the draft of this evaluation report, the EC Delegation expressed strong criticism of this consultation process.

¹⁷ Sources: U.S. Dept. of State (2000) and interviews.

custody, and carrying our arbitrary arrest and detention. According to the U.S. Department of State, fair and expeditious trials are not possible because the judiciary “lacks adequate resources, and is chronically understaffed, susceptible to corruption, and largely ineffectual”. Interviews with human rights organisations also highlighted corruption within the judiciary as a central factor in the abuse of human rights. Prison conditions are extremely harsh (particularly the prisons of the Ministry of the Interior), and many prisoners are reported to have died in prison. Domestic violence against women is widespread, and the exploitation of street children and child prostitution are serious problems.

Economic situation

Rich in natural resources, recent very rapid growth with low inflation, and a large privatisation programme, but the economy remains very fragile.

Mozambique has a strong resource base

Mozambique has a strong natural resource base, particularly through its coastline (2,750 km long), which provides both fishing and the potential for tourism. The ports along the coastline also give the country potential as a key regional transport link for countries further inland. Mozambique has a large land area, though less than 10% of arable land is currently cultivated. The agriculture sector accounts for 30% of GNP, and 80% of exports. Principal exports are prawns (40% of total export earnings), cotton, cashew nuts, and copra. There are large reserves of natural gas, coal and minerals, with a major aluminium smelter project (MOZAL). The country also has large potential for hydro-electric power, exported from the Cahora Bassa Dam.

Recent very high growth and macro-economic stability

Mozambique is considered a success story not only because of its transition from war to peace, but because of its recent high growth, low inflation, and 13 years of structural adjustment programmes with the Bretton Woods institutions.

The 1995 ESAF arrangement was not completed, but since 1996 Mozambique has had continuous programmes with the IMF. Annual growth since 1997 has been 11% (compared to 5.5% between 1987 and 1996), to which good agricultural seasons have made an important contribution. Since 1996 inflation has been reduced from 50% to single digits.

A comprehensive privatisation programme has been implemented, and the privatisation of two large state banks has eased the fiscal burden. Foreign investment has increased since 1998, and trade liberalisation has been successfully pursued. Mozambique (and the BWI) have been given credit for these results, and the country is beginning to benefit from the HIPC initiative (see Box).

Mozambique and the HIPC initiative

The HIPC initiative, launched in 1996, and involving action by all creditors, aims to reduce the external debt of the world's poorest, most heavily indebted countries. Eligibility depends on analysis of a country's debt sustainability, and on implementation of integrated poverty reduction and economic reform programmes.

Mozambique was one of the first countries to reach completion point under the HIPC initiative. The initial decision to give assistance was taken in April 1998, and the completion point was reached in June 1999. The decision point for the 'enhanced' HIPC initiative was in April 2000.

Mozambique will receive total debt relief amounting to \$ 4.3 billion, cutting its debt by 72% in present value terms, and cutting its annual debt service payments by up to two-thirds.

Following the floods in early 2000, a number of creditors granted Mozambique additional debt relief.

Source: World Bank (2000c) and World Bank web-site.

Economy remains fragile

Evaluations suggest that the BWI programme and conditionalities have been too dispersed,¹⁸ with insufficient focus on institutional changes or on the capacity-building that could internalise such changes. There has been insufficient focus on public service reform, support for public financial management (including controls and accounting), more general public administration reform, or increases in the remuneration of qualified public employees.¹⁹

The risk is that the economic successes could be reversed or could remain fragile because of the extremely thin capacity of institutions to ensure macro-economic management and a level playing-field for the private sector.

Moreover, fiscal equilibrium depends on high external transfers from donors (about 10% of GDP per year) and delays in disbursements have a strong impact on the exchange-rate and on the Government's cash management. The economy also remains highly vulnerable to weather-related shocks, while private sector and foreign investment is still deterred by bureaucratic red tape and corruption. Political conflict after the recent elections also appears to have affected business confidence.²⁰

The next reforms for sustainable growth require institutional changes that are more difficult to achieve, e.g. a strategy to increase fiscal revenues as a proportion of GDP (in order to reduce dependence on foreign donors) and ending the practice of large *fiscal exemptions* for foreign investors (e.g. Mozal). Moreover, it is possible that donor aid will become conditional on institutional reforms (e.g. more controls on the transparency of public expenditure management, and public sector reform).

Poverty and social developments

Poverty is pervasive but unfortunately it has only recently begun to be monitored. The Government has recently prepared an action plan for poverty reduction. The country suffers from large regional income disparities.

Pervasive nature of poverty

Mozambique's per capita income (even after a recent major statistical adjustment) is among the lowest in the world. This is consistent with its ranking in the UNDP Human Development Index: 168 out of 174 countries. A recent survey found that over two-thirds of the population live below the national poverty-line (which at US\$ 0.40 is less than half the standard US\$ 1 per day generally used by the World Bank).²¹

A number of factors have led to this situation, including the colonial inheritance, war, and the interventionist policies of the early FRELIMO Government. Poverty is also affected by the fact that the country is prone to natural disasters, which in a subsistence economy threaten rural survival, and by the recent threat of the spread of HIV/AIDS (which has reached nearly 15% of the adult population) – see Box on p.8.

¹⁸ For example, World Bank Executive Directors questioned whether the World Bank was over-committed in too many fields (World Bank 1998b, p. 7), recommending that the new strategy “should discourage the proliferation of investment projects ...” (p.47).

¹⁹ “Several problems of capacity in public administration, still unresolved, could have been tackled earlier and more effectively if the solutions (...) to the salary reform problem had been developed earlier and pursued more vigorously”. World Bank (1998b) p.43.

²⁰ KPMG conducts a business confidence survey in partnership with the Mozambique/South Africa Chamber of Commerce and Industry and the CTA. The index fell from its base of 100 in the third quarter of 1998, to 80 in the first quarter of 2000.

²¹ Govt. of Mozambique (1998a).

The national literacy rate is only 40% (24% for women), life expectancy is 47 years,²² and the infant mortality rate is 135 per 1,000. Almost 40% of Mozambicans are not expected to survive beyond 40 years of age. The World Bank *Country Assistance Strategy* notes that even though the country has nearly achieved food self-sufficiency, the average household still suffers through a pre-harvest hungry period of several months per year, and malnutrition is widespread.

Evolution of poverty: no firm data

There is no firm data on the evolution of poverty during the reform programme. The initial programme, which began in 1986, did not target poverty directly, but put the emphasis on privatisation, lowering trade barriers and macro-economic stabilization. The first national poverty reduction strategy was published only in 1995, but the impact on poverty could still not be measured because no baseline indicator was available.²³ This only changed in 1996-97 when the first nationally representative household survey was carried out.

While no firm indicator is available, the World Bank states that growth in agriculture “is likely to have benefited the poor”.²⁴ It also states that available data point to continued improvements (including access and coverage of education and health services).²⁵

HIV/AIDS – spreading rapidly

The National AIDS Control Programme in Mozambique estimated that 14.5 % of the adult population were infected with the HIV virus at the end of 1998, and that by that time 140,000 people were either living with AIDS or had died from it. It is projected that as a consequence of AIDS, life expectancy will fall from 43.5 years in 1997 to 35.4 years in 2010.

The rapid spread of the disease in the 1990s has been linked to population movements associated with the return of refugees, migrant labour, and the development of transport corridors.

The illness and death of younger adults is having a significant effect on household structure. It is projected that by 2002 there will be over 400,000 orphans as a result of AIDS. The pandemic will place a growing strain on health services, and will place the burden of subsistence agriculture increasingly on children.

The Ministry of Health has had programmes to combat AIDS since 1988, and currently has in place a multi-sectoral National Strategic Plan for the Fight against STD/HIV/AIDS.

Source: UNDP (2000b)

High regional income disparities

The extremely high level of poverty in Mozambique is compounded by the high income disparities between the north, centre and south of the country. The incidence of absolute poverty is higher than 80% in Sofala, Tete and Inhambane (central provinces), and the incidence of poverty using the UN human poverty index is higher than 55% for all the northern and central provinces.

The *Mozambique Human Development Report 1999* shows a GDP per capita of US\$ 162 for the north and US\$ 189 for the centre, compared to US\$ 471 for the south (but with US\$ 1,426 in Maputo City). Similarly, GDP growth appears to have varied considerably. Recent draft socio-economic surveys suggest possibly even bigger inequalities between different parts of the country than is suggested by published data.

Public expenditure also needs to be analysed on a regional basis. The greater availability of public services in the south (compared to the densely populated areas of the north and centre) exacerbates inequality. The question is whether the Government can rebalance these inequalities. Donors have recently raised this important issue with the Government at the latest Consultative Group meetings. However, it remains a sensitive issue.

²² UNDP (2000).

²³ World Bank (1998b), p.24: “The very limited data now available seriously limit assessing the effect of the strategies and fine-tuning their poverty impact”.

Government has now prepared an action plan to reduce absolute poverty

The Government recently (December 1999) prepared PARPA – the Action Plan for the Reduction of Absolute Poverty 2000-2004²⁶ – which is to complement the Economic and Social Plan, the Three Year Public Investment Plan and the Annual State Budget, and which is to be integrated in the medium term budget process. The plan sets a goal of reducing the incidence of poverty from 70% to 60% by 2004. This plan recognises regional asymmetries and includes sector objectives, targets and indicators for monitoring achievements. The Government plan has resulted in an interim *Poverty Reduction Strategy Paper*, a prerequisite for the HIPC initiative. However, the BWI assessment of the interim strategy is that it has not yet been sufficiently participatory.

The implementation of the PARPA will be seriously affected by the weakness of civil service capacity. The Medium Term Expenditure Framework is poorly integrated to resource constraints, accounting and auditing functions in the budget are extremely poor, and there is only weak monitoring of budget outputs (and poor measuring of inputs). Surveys tracking expenditure in the social sectors have not been carried out as yet.

Recent efforts to improve analysis of poverty

1996	<i>Rural Poverty Profile</i> produced by the Ministry of Planning and Finance
1996-97	<i>National household survey</i> (IAF)
1998	<i>Poverty and Welfare in Mozambique: First National Assessment</i> , produced by the Ministry of Planning and Finance
1999	<i>Action Guidelines for the Eradication of Absolute Poverty</i> approved by Council of Ministers, April
1999	<i>Action Plan for the Reduction of Absolute Poverty</i> (Plano de Acção para a Redução da Pobreza Absoluta, PARPA), December, MPF, which became the basis for the <i>Interim Poverty Reduction Strategy Paper</i> (PRSP)

Some progress in reducing gender inequality, but problems remain

The emancipation of women has been an objective of FRELIMO, with a prominent role given to OMM (the Mozambican Women's Organisation). The Government has signed international conventions on gender equality, and, following the 1997 Beijing commitments, has drawn up a gender action plan. Women are also well-represented in the National Assembly (though women's involvement in leadership positions in Government is low).

However, problems remain. The illiteracy rate for women (76%) is much higher than that for men (42%), and primary school enrolment of girls (54%) is lower than that for boys (75%). Malnutrition is also higher among girls than boys.

Women have a strong role in the workforce (52%), predominantly in the agriculture sector, where land tenure issues have been an important factor in the incidence of poverty among women. (The 1997 Land Law was intended to facilitate change, giving women some land rights, but it is too early to assess its effectiveness.) Poverty among women is particularly problematic because of the high proportion of households in which women are dominant, partly as a result of the civil war and migration.

²⁴ World Bank (2000b), which also notes that household food security has been improved by the early warning system for food security risks maintained by Médecins Sans Frontières.

²⁵ World Bank (2000c), p.10.

²⁶ Action Guidelines were approved in April 1999 based on Govt. of Mozambique (1998b).

Severe environmental degradation

Mozambique has extensive natural resources. However, there is evidence of the acceleration of unmanaged use of natural resources. Since 1995 the Government has had a National Environmental Action Plan, and has established a Ministry of Environmental Coordination, though considerable progress is still to be made in ensuring that environmental concerns are mainstreamed.

Civil war and refugees have resulted in significant degradation of the environment. Environmental problems are particularly noted in urban areas and along transport corridors. Key concerns are water quality and sanitation, deforestation (fuel wood, clearance for agriculture, logging), and degradation of coastal waters. In agriculture, slash and burn techniques have resulted in significant soil erosion, while coastal mangrove forests – the breeding grounds for shrimp – have been severely damaged.

Donors in Mozambique

Extremely high aid dependency. BWI have had the lead in the reform programme. There is a new focus among donors on increased ownership, good governance, and civil service capacity.

Extremely high aid dependency

The level of official development assistance is extremely high, at 28% of GNP (World Bank, 2000f), and is higher than total Government revenue. Mozambique has been called the most aid dependent country in the world (1996 EC Country Strategy Paper, p.1). Fiscal balance depends on continuous support from donors.

BWI led the reform programme

The country has had structural adjustment programmes with the BWI since 1987. It has had to agree to Policy Framework Papers with a great number of conditionalities and to the review of their implementation. Given the weaknesses in Government, the BWI have led the reform process. This has been difficult on many occasions – in 1995 an ESAF disbursement was not approved by the IMF. While Article IV consultations are not made public, the constant monitoring of macroeconomic conditions by the BWI and relatively good relations between BWI and other donors have led to a good exchange of information among donors.

The recent review of structural adjustment programmes appears to have led the BWI to urge the Government to exercise greater leadership in the reform programme. However, this is difficult given the extreme weakness of the civil service apparatus. Government ownership is also more difficult in a context where donors use salary top-ups to compensate Government staff.

Some progress in sector-wide programmes

Coordination among donors is weakened by the poor Government capacity for coordinating donors (see Box on p.40), but some progress has been made through working towards sector approaches (e.g. budget support and PROAGRI). However, effective coordination will not be possible until donors increase the transparency of the way in which they pay salary top-ups to Government officials to implement their own individual projects. At the moment, sector approaches are still marked by competition among donors.

The success of sector programmes will depend not only on changes in donor attitudes, but also on greater Government support (including actions in public sector reform and in support from MPF and MAE for programmes like PROAGRI).

Donor coordination at a general level happens around the Consultative Group meetings, through the multitude of sector groups (only a few of which are effective), and through the regular meetings of EU Heads of Cooperation (under the chair of the EC Delegation).

Donors focus on governance and low Government capacity

Donors have made reference to the weakness of Government capacity almost from the beginning of the reform programme,²⁷ although the reform programme itself focused on macro-economic issues, privatisation and trade liberalisation. However, even after 13 years of the reform programme, there has been insufficient donor focus on Government capacity and progress has been slow. The most recent donor assessment notes the weaknesses of the Treasury and the Payment System as well as internal and external auditing. As a result, concerns over governance and the accountability and transparency of public expenditure management are now at the centre of the donor agenda in the country.

There is consensus that no reforms or reduction of poverty are possible without effective public sector reform. It is not only that the low transparency and efficiency of the budget, red tape, and poor private sector regulation are seen as constraints on growth, but corruption is also emerging as a factor that may give rise to political instability. Improved governance and the rule of law (and a related reform of the public sector) were key issues discussed by donors and the Government at the June 2000 Consultative Group meeting. They also appear in the World Bank's *Country Assistance Strategy* as one of four binding constraints on development in Mozambique and as a trigger for the "low case" scenario – civil strife, war, or governance practices which cause the external development partners to significantly reduce their level of support for an extended period (World Bank, 2000c).

Regional issues

The Mozambican economy has important regional links. In particular, there are close economic ties between the south of the country and South Africa, with substantial foreign investment from South Africa, and many Mozambican workers in South Africa.

Mozambique provides access to the sea for several landlocked neighbouring countries, and the regional transport corridors to Mozambican ports are an important source of foreign revenue. Hydro-electricity from the Cahora Bassa Dam and gas from the Pande gas fields are also important potential sources of export revenue. These economic ties provide a basis for further economic integration in the region.

Mozambique has recently held the chairmanship of the Southern African Development Community. Mozambique also has strong relations with other Portuguese-speaking countries around the world. Within the scope of EC development cooperation, Mozambique benefits from the southern Africa regional programme and the programme for Portuguese-speaking countries (PALOP).

The liberalisation of European markets to Mozambican agriculture could provide an important boost to the economy.

²⁷

Public expenditure management and capacity building were identified as priorities in the 1991 World Bank Country Assistance Strategy.

B. Was the EC's 1996 strategy relevant to the country's needs?

This section assesses both the strategy preparation process and the documents of the EC's current support strategy for Mozambique (1996 Country Strategy Paper and 1997 NIP).

Preparation of the strategy

Consultations with Government were affected by the low profile of the EC, difficult relations between the EC and the NAO, and limited Government capacity

Consultation with the Government on the EC's current country strategy began in 1995, following a visit of Commissioner Pinheiro to Mozambique in May of that year, and continued through a series of meetings between the Delegation and the NAO office. However, consultations were hindered by on-going difficulties in relations between the EC and the NAO and by the EC's low profile in the country (see discussion on p.47). Government capacity was also weak, as was coordination between Government departments and the NAO office. Nevertheless, interviews indicate that the NAO office felt that they could not influence the EC's strategy.

Consultations with Member States – important concerns raised

Member States were consulted during strategy preparation and a draft Strategy Paper was circulated and discussed with MS in Mozambique in October 1995. The Strategy Paper was approved by the EDF Committee in May 1996. However, important concerns were raised by the MS, particularly in terms of the weak links between the analysis and the proposed unfocused strategy (see Box). Consultation with other donors was limited.

No consultations with civil society were carried out in preparing the Country Strategy Paper.

Member States' reactions to the CSP

MS approved the CSP as a basis for negotiating the NIP, but they raised a number of concerns:

Concerns about the EC's analysis

- No clear link in the CSP between the analysis and the proposed strategy
- Insufficient analysis of the EC's comparative advantage and of how to achieve complementarity
- Need for the strategy to be backed by closer analysis of the nature and causes of poverty
- Insufficient analysis of environment and gender issues and their implications for the strategy

Concerns about objectives

- Insufficient focus, either sectoral or geographical. No clear rationale for geographical focus
- Uncertainty as to whether the EC Delegation had the capacity to centre its strategy on micro-projects and on a decentralised approach aimed at capacity-building

Specific areas of the EC's strategy

- The difficulty of supporting community development through NGOs
- Little discussion of the future role of food aid / food security
- Need for more detailed discussion of programme design and implementation in the strategy, in particular of ways to strengthen Government departments with key functions in macro-economic reform.

An evaluation of the strategy documents

Weak analysis of country constraints, but frank assessment of past EC interventions

The country analysis in the Strategy Paper (see Box) did not benefit much from analytical studies. Key issues and constraints were presented without a clear framework.

The section presenting the 'Past Experience of Community Aid', while limited by the availability of evaluations, presented a frank and critical assessment (p.5) – see Box.

Community development is the principal "sector" in the CSP. In reality this means that the EC did not make sectoral choices

The Strategy Paper called for a strategy of community-based development in rural areas. This was to be implemented through micro-projects. In addition, a large number of "complementary sectors" were identified,²⁸ and emphasis was given to non-project support in order to ensure absorption (p. 11).

This formulation avoids making choices, as it allows the EC to include almost any activity in its strategy. The EC justified this given the uncertainty of Government plans, but the approach renders the strategy exercise invalid.

The strategy of non-project support did not take sufficiently into account the weaknesses of previous sector import programmes. The Strategy Paper notes that these interventions require institutional improvements, but no strategy for these were suggested. The emphasis on micro-project schemes is surprising given their limited scope for absorbing funds. Member States raised a number of these issues, which influenced the formulation of the NIP.

Country analysis in the CSP

The 1996 CSP identified the following constraints on development in Mozambique:

Institutional constraints

- extremely limited pool of educated people
- erratic and non-transparent application of rules

Constraints on rural development

- access to markets limited
- disappearance of a monetary economy in many rural areas

Macro-economic constraints

- inappropriate monetary, credit and fiscal policies
- interventionist, over-bureaucratic State
- weak public administration and corrupt practices among public servants
- enterprises' weak management skills and unqualified labour force

Political constraints

- limited progress in national reconciliation and political democratisation
- on-going tensions between RENAMO and FRELIMO in rural areas
- postponed municipal elections

CSP assessment of EC interventions

The Country Strategy Paper singles out the serious weaknesses of rural development programmes (top-down, over-ambitious, low sustainability), and of sector import and commercial food aid programmes (both of which were suspended, with large amounts of counterpart funds not paid by importers). The poor financial management of the latter is identified.

Moreover, the section concludes that "negative project experiences clearly outweigh positive results in the countryside", though positive results are noted in micro-project schemes, electoral support, and GIP1 (p.6).

Delays at all stages of project implementation are noted, and are linked to the weakness of the Government administration.

²⁸

Fostering democracy and peace-building, private sector development, and the promotion of transport, including possible support for ports and railways

NIP modifies the Strategy Paper approach, but continues to avoid real sectoral choices

The NIP also specified “integrated community development” as the focal area, and stated that 85% of NIP funds would be allocated to the focal area and to the “complementary focal sectors” (democracy, private sector development, and transport), thus not imposing any significant constraint on the EC’s portfolio. This formulation would allow the continued involvement in many sectors through a large number of small interventions. However, relative to the CSP, the NIP de-emphasised micro-projects as an instrument.

The EC argued that it was premature to specify a detailed strategy in a period where the Government was in transition.

The ‘strategy’ proposed does not link to the country analysis

While many of the facts in the strategy documents are relevant, it would seem that the EC was not ready to prepare a strategy at that time. There was no clear link between the country analysis and the proposed strategy, and the strategy was not properly defined.²⁹ The strategy documents appeared to give some centrality to the agriculture sector, but in practice this has been implemented through the Food Security budget-line rather than the NIP.

The strategy was weakly linked to poverty reduction and good governance, but not to gender equality or environmental protection (see Box).

Dispersion is reinforced by the multiplicity of instruments

The current NIP covers a greater proportion of the EC’s total portfolio than did previous NIPs,³⁰ but the NIP provides limited guidance for instruments such as the Structural Adjustment Facility and the Food Security budget-line.

Strategy documents are not realistic

The lack of concentration in interventions has contributed to over-stretching the capacity of the Delegation (and EC staff) and has prevented the EC from concentrating on institutional issues that could improve the Government’s absorption capacity.

The Strategy Paper notes that EC technical assistance will be provided to key Government departments. It notes the importance of supporting the management and monitoring of fiscal

The place of EC priority objectives in the country strategy

Poverty. The strategy documents focus on addressing rural poverty, by means of community-based interventions to promote production and raise incomes in rural areas. However, there is very little analysis of the nature and causes of poverty and no analysis of how the strategy proposed is an appropriate means to reduce poverty.

Governance. The governance objective is recognised through the focus on political constraints,¹ and as a complementary sector. While this is consistent with the analysis that electoral support is one of the few areas of success of the EC programme (CSP p.6), there is no elaboration on how support should be given. The NIP mentions support for the central administration of the State, parliament, the courts and the public prosecutor, but not support to civil society.

Gender and environment. The attention to gender and environment issues is extremely weak in the strategy documents. The CSP contains brief references to promoting the role of women and equality of opportunity, while there is no discussion at all of the environment. The NIP does not include references to either gender equality or the environment.

1. In addition, the first statement of the EC’s aims is that “The Community’s programme embraces socio-economic and political domains.” CSP, p.6.

²⁹ The NIP states that the EC’s strategy might cover a wide range of sectors: rehabilitation of rural roads, water supply, schools and health centres, food security, livestock farming and rural extension, small and micro enterprises, and rural telecommunications – all in addition to the complementary sectors noted above

³⁰ Following the end of Article 255 funds, the phasing out of rehabilitation budget lines, and the end of food aid.

and non-fiscal revenues, ensuring proper budgetary allocation and execution. However, this is an ambitious agenda, and the EC strategy was not linked to an analysis of the relative strength of different Government departments or the comparative advantages of the EC vis-à-vis other donors.

Strategy does not include any discussion of complementarity with other donors or even specific guidance for better coordination.

Preparation of the next strategy

Preparation is beginning for the Country Support Strategy for the 9th EDF, in the context of the Cotonou Agreement. Preparation is facilitated by the fact that in Mozambique the EC has prepared assessments of the status of its portfolio and country analyses, in the form of Annual Reports and Country Reviews.

The 1999 Country Review and the recent Mid-Term Review were exercises that aim to improve programme management. In particular, the Country Review (March) and its update (September) were frank assessments of the situation of the programme and raised important issues (e.g. coherence of RDP with sector-wide approaches). The 2000 Country Review has just taken place.

The EC expects that the initial work on the PARPA will provide contributions to the EC's strategy. However, the EC's strategy will be prepared before the PRSP (which should provide the general framework for donors).

The EC appears ready to share the work on country analysis carried out by other donors (e.g. the World Bank and UNDP), and also to work together on its strategy preparation with Sweden. This is a very important initiative. It should be noted that other donors have in the past engaged in joint strategy discussions in Mozambique (for example, discussions in May-June 1998 between the World Bank, Norway, USAID, Netherlands and the UNDP).

It is also expected that the EC will carry out consultations with other donors, civil society and the private sector. In preparing its own Country Assistance Strategy, the World Bank carried out consultations with civil society.³¹

C. EC programme in Mozambique

More than € 1 billion of EC aid has been disbursed in Mozambique, which signed the Lomé Convention in 1984. In the late 1980s and early 1990s, during the final stages of the civil war, a significant proportion of EC aid was emergency assistance and food aid. With the signing of the peace agreement in 1992 and the elections of 1994, the focus of EC assistance moved to rehabilitation. In more recent years, there has been a transition from rehabilitation to longer-term development assistance.

The funds committed within National Indicative Programmes have increased steadily, from € 160 million in the 6th EDF, to € 170.6 million in the 7th EDF, and € 214.5 million in the 8th EDF. Under the 7th and 8th EDF, a significant proportion of aid has been channelled through the Structural Adjustment Facility – € 82.8 million in total. Other EDF instruments which have been significant in Mozambique are Article 254 (emergency aid) and Article 255 (aid to refugees) funds – which provided over € 60 million in the period immediately before and after the end of the civil war – and Stabex, which yielded over € 20 million (mostly 6th EDF).

³¹ See World Bank (2000c) p. 61, which notes consultations in November 1999 and March 2000 (revisiting of groups).

Budget line contributions have been very large – more than € 500 million since EC aid began, a large proportion of which was from the Food Aid budget line (which closed in 1996), in response to the civil war and the drought which coincided with the end of hostilities. Rehabilitation budget-lines (Rehabilitation in Southern Africa, and Rehabilitation in Developing Countries) were also major sources of funds. In recent years, the most financially significant budget-line has been Food Security, from which € 43.6 million have been committed since 1996.

The Table below summarises the major 7th and (approved) 8th EDF interventions (above € 6 million), as well as larger budget-lines interventions in recent years. Annex 2 (p.A10) contains a more comprehensive version of this table.

7th and 8th EDF (approved) (> € 6 million) and selected budget-lines				
Source of funds	Project	Amount € million	Date of commit- ment	Main activities
		7th EDF		
Str. adj. fac., National	Structural adjustment support GIP 1	45.0	1992	• Balance of payments support
National	Structural adjustment support GIP 2	15.0	1995	• Balance of payments support
National	Roads rehabilitation programme Zambezia and Sofala province	30.0	1993	• Road rehabilitation
National	Rural health system rehabilitation in Zambézia province	26.0	1995	• Rehabilitation of health facilities in Zambézia, with support to Min of Health at central and provincial levels
National	Reconstruction and resettlement programme	12.0	1993	• 22 NGO projects, many sectors, supporting reintegration of refugees
National	Emergency support for roads rehabilitation and water supply	11.8	1992	• Rehabilitation roads, bridges, water supply in 4 provinces
National	Supply of voting materials (1994)	11.0	1994	• Supply of electoral material
National	Reintegration of displaced, refugees and demobilised	10.2	1992	• Materials for construction, agriculture, micro-enterprises
National	Support for 1998 municipal elections	9.5	1997	• Equipment, personnel, training, civic education
National	Support for the 1994 electoral process	8.3	1992	• Materials for voter registration
Article 255	Support for the rural health sector	15.4	1993	• Basic health care through NGOs during transition period
Regional, national	Beira-Inchope road rehabilitation	21.5	1994	• Road rehabilitation
		8th EDF		
Str. adj. fac., HIPC, National	Structural adjustment support GIP 3	67.8	1997	• Balance of payments support
National	Nampula to Nacala road rehabilitation	36.6	1999	• Road rehabilitation
National	Rural development programme	30.0	1999	• Up to 20 NGO projects, many sectors (half education), linked to provincial planning
National	Support to the general elections 1999	21.0	1999	• Materials, training, civic education
National	Water resources management / Rural water supplies Zambezi river basin	11.6	1999	• Establishment of regional water authority, and provincial water management
		Selected budget-lines 1993-1999		
BL 2000	Food security programme	43.6	1996-9	• Budget support, support to Min of Agr, support to Min of Trade, grain marketing, NGOs (food security)
5071/3210	Rehabilitation in Southern Africa	36.4	1993-9	• NGO rehabilitation projects, many sectors
5076/6410	Rehabilitation in developing countries	17.3	1994-7	• NGO rehabilitation projects, many sectors
5010/6000	Co-financing of NGOs	14.5	1993-9	• NGO projects, many sectors

Sources: EC (2000c) and EC (1999d).

2

Performance of the EC's programme

*The EC's performance in a country is to be principally assessed in terms of its **impact** on the EC's priority objectives, in particular good governance, poverty reduction, gender equality, and environmental protection.*

The assessment of the performance of 7th EDF projects is based on mid-term and final evaluations, where available. Where evaluations are not available and in the case of 8th EDF projects (where implementation has only recently begun), the assessment is of the likely impact of interventions. This assessment is based on analysis of the quality of project preparation and some indications of implementation (based on interviews and an extensive review of files).

Key factors contributing to the EC's performance are analysed in Chapter 3 (institutional strengthening, the degree of donor coordination, and the Commission's resources and procedures).

A. Governance and the rule of law ³²

The EC programme has supported elections (though without strengthening institutions), but has provided little support to a more transparent and accountable public expenditure process or to empowering civil society for improved governance.

The EC has provided important logistical support for 3 elections but it has not focused on institution building as yet

After the end of the civil war in 1992, the EC's programme supported the transition to peace both through relief and rehabilitation programmes and through being the major donor supporting the 1994 elections (along with UNDP). The support for the 1994 elections has not been evaluated, but it is perceived as having been important for the transition. In addition, the flow of aid – and particularly physical rehabilitation programmes – may have helped consolidate the peace. According to the evaluation of the rehabilitation programme, “Physical re-building arguably had an important psychological effect as it signalled to the population that the war was over” (EC 1999g, p.39).

The impact of EC support for the 1998 municipal elections is considered to be low by a recent evaluation because of the very low turnout in the elections,³³ but the elections may nevertheless be seen as a positive step towards local democracy. However, there were high risks involved in supporting this electoral process – the elections were boycotted by RENAMO and there was a threat of violence.³⁴ In addition, the weakness of the electoral body (STAE) resulted in criticism of its financial procedures, particularly at provincial level (in an audit carried out by KPMG).³⁵

The 1999 elections were also supported by the EC. While the EC appears to have been able to deliver its support according to plan, time and financial demands made this a particularly

³² Including democracy and respect for human rights.

³³ EC (1999c).

³⁴ In April 1998 (2 months before the elections), the Bishops of Mozambique issued a declaration stating that they feared the elections would provoke a return to civil war. Considerable concern about political instability and social unrest was also expressed to the Government by donors at a Tripartite Meeting with the Government in May 1998.

³⁵ EC (1998a).

difficult programme to manage. Initially, the electoral process contributed to consensus-building, as the parties were able to agree on new electoral laws. Donors facilitated consensus-building through consultations with both political parties. In the end, however, there were considerable delays in the counting of the results of the elections, and RENAMO subsequently refused to recognise the validity of the results.

At each election the EC's support has been short-term, aimed at ensuring the smooth running of each election. The EC's support has not contributed to the sustainable development of a Government institution that will be able to carry out elections competently in the future (see p.33). The development of sustainable capacity is important to consolidate the transition from war to peace, given continuing fragility in the democratic process. Some other donors are exploring ways to encourage dialogue between the main political parties as well as to support the building of an independent electoral institution.

During interviews with the evaluators, a number of donors noted their appreciation for the EC's support for elections, and pointed out advantages of continuing EC involvement in the area. However, both the EC and the UNDP are reconsidering their involvement in this area.

EC support for other aspects of governance has so far been limited. The EC has for some years been considering support to the justice system, which is extremely weak in Mozambique, but proposals have not been approved.³⁶ The EC has also supported a small number of projects through the Human Rights and Democracy budget-line.

Weak support to the transparency and accountability of public expenditure: structural adjustment support and road sector

The EC, like other donors, has been slow to focus on ways to increase the institutional accountability of public expenditure. As noted in Chapter 1.A, since the reform programme began in 1987, progress in public administration reform has been limited. Donors have provided financial resources to support an increase in public expenditure without providing effective support for ensuring the accountability of the increased expenditure.

Structural adjustment support

EC structural adjustment programmes have not improved governance in Mozambique (see p.31):

- There were difficulties with the financial management of counterpart funds for **SIP 1 and SIP 2** (6th EDF).
- **GIP 1 (1992) and GIP 2 (1995)** did not contribute to improvements in budget transparency. These programmes focused on obtaining Government data on budget execution in the social sectors, rather than on improving expenditure management in the social sectors or public sector reform.³⁷
- **GIP 3:** The latest structural adjustment support programme introduced a number of conditionalities, including public expenditure management. However, it was seen as insufficiently coordinated with the Government and other donors. GIP 3 included Technical Assistance to the Treasury (MPF), but given that this is an isolated intervention it is unlikely to have a significant impact, if it remains unchanged (see p.32). A similar problem was faced by the EC's support for counterpart funds management and by the 1997 support to the Prime Minister's Office on public sector reform. By contrast EC support to financial management in the context of PROAGRI has a greater likelihood of success (see Box on p.20). In this context, the December

³⁶ It is proposed that NIP funds (possibly in collaboration with Denmark) would be used to support the courts, the Attorney General's Office and the prison system.

³⁷ The 1995-2000 TA programme was intended to support the management of EU counterpart funds, but it had a very weak Government counterpart (TA Final report, June 2000).

1999 Financial Audit was unable to express any assurance on the budgetary application of EC counterpart funds.³⁸

The EC's impact on governance will be enhanced if it follows strictly the common donor approach for budget support and for the use of a joint pool of funds to support key areas of the Ministry of Planning and Finance (see Boxes on pp.32 and 44).

Food Security budget support

The EC is providing TA to improve financial management systems in the Ministry of Agriculture (DFAF department), within the context of the PROAGRI sectoral reform programme. Change in this area is difficult, in part because of the continuation of a project approach and because of the differing objectives of the many donors in the sector, but primarily because of difficulties relating to salary top-ups (see Box on p.43 below). Donors and the Government appreciate the work of the EC in this area.

The insufficient transparency of Government accounts was reflected in the Audit of the Food Security Foreign Facility (EC 1998d), which concluded that it was unable to express any assurance on its receipts and expenditures (p.15). Moreover, DNEP managers denied the auditors access to their files (p.13). As a consequence of this, DNEP was removed as a recipient of the 1997 Facility.¹

Nevertheless, the audit did report a number of positive findings. In particular, it found that funds flowed appropriately to the Ministry of Agriculture, facilitating agreed execution levels there. (See also Annex 1.4, p.A5.)

1. Terms of Reference for Audit for 1997 Foreign Facility (financial and operational).

Road sector interventions have not contributed to improving governance

The road sector provides an example of how donor support has allowed significant investment but without commensurate improvements in management and accountability (see p.33).

EC road rehabilitation programmes were supposed to be within the framework provided by the World Bank ROCS programme, which was intended to address institutional issues before a significant increase in investment. However, progress was slow, and the continuing weakness of DNEP affected all donors' road-building programmes.

As a consequence of this, together with the EC's complex procedures and management, the EC has experienced difficulties with the financial management of its road programmes (particularly Beira-Inchope and emergency roads in Sofala – see Annex 1.1, p.A1). However, until recently the EC has not attempted to address the overall weakness of ROCS through increasing its own focus on institutional strengthening.

Even now, a recent assessment for the EC noted shortcomings in the degree of autonomy of the Roads Authority and the Road Fund and in the assurance of funds for road maintenance (key institutional goals of ROCS1).³⁹ Moreover, a recent supervision mission of ROCS2 noted not only the very weak monitoring of civil works and consulting services contracts, but also the weakness of ANE's accounting system, including delays in audits of project accounts and the revolving fund and serious deficiencies in internal controls on the road fund accounts.⁴⁰

³⁸ EC (1999h).

³⁹ EC (1999a), pp.9-10., on the "...shortcomings in terms of ANE autonomy vis-à-vis MOPH nor of lack of Road Fund autonomy vis-à-vis ANE".

⁴⁰ World Bank (2000a).

The EC worked with international NGOs, but this has done little to empower local communities

Because of the civil war and the weakness of Government institutions, a significant proportion of the EC programme has been implemented by NGOs, mostly international. While this facilitated implementation, it appears not to have had a significant impact on governance. There has been limited support for governance 'watchdogs' or for advocacy organisations which might articulate citizens' interests. More generally, the EC does not appear to have made a contribution to the development of civil society, or to supporting links between civil society and local government (see section 3.A.ii below).

This partly reflects the shortage of Mozambican NGOs with roots in local communities, and partly reflects the often limited degree of coordination between NGOs and local administrations.⁴¹ Indeed, in some cases the absence of democratic local decision-making structures has led EC-funded NGOs to establish new forums for beneficiary participation (e.g. 'Development Councils') which appear unsustainable and unlikely to have a positive impact on governance.

However, the EC has recently given greater attention to building the capacity of local NGOs, including analysis of the capacity of local partners in the Calls for Proposals carried out by the Food Security Unit and the Rural Development Programme, and the organisation of Technical Seminars. The EC is also proposing to carry out a study on how best to support civil society.

B. Poverty reduction

The EC has targeted areas with high potential for poverty impact, but the dispersion of the programme, the weak institutional focus and difficulties in implementation have limited the impact of the EC programme. Monitoring and use of poverty benchmarks have been very weak. The recent increase in the focus on institutional issues may improve the impact on poverty.

Structural adjustment funds – limited poverty impact

7th EDF (GIP1 and GIP2) and 8th EDF (GIP3) interventions in support of structural adjustment absorbed about € 128 million. The EC supported the BWI overall reform programme, which has had an impact on poverty which cannot be measured (see p.8).⁴² While the ultimate goal of the EC structural adjustment programme was the support of social services to the poor, attention has been focused on collecting execution data (often of poor reliability) on Government expenditure in the social sectors – the focus has been on inputs rather than on improving budgetary processes or trying to improve results or outcomes. This is particularly problematic given the weakness of budgetary planning, execution and controls in Mozambique⁴³ and the poor capacity of the public sector. In this context, budget support to social services is likely to have had a low impact on poverty.⁴⁴ Moreover, the impact of EC structural adjustment support has been affected by the late release of funds (a consequence of a number of factors), which has complicated both budget and cash management.

⁴¹ EC (1999g), pp.53-55 and 62-64.

⁴² Some Executive Directors questioned whether "there was a strong link between poverty focus and the proposed lending programme..." (World Bank 1998b, p.7).

⁴³ For example, even with the recent restructuring of budget presentation, budgetary data does not allow the identification of expenditures on primary education or health.

⁴⁴ In countries like Uganda, which have a relatively more advanced public expenditure framework, it has been found that the measured inputs of budgetary execution in the social sectors have correlated only weakly with social sector outcomes (World Bank 1999e).

...but could improve in the context of a joint donor approach. GIP 3 correctly focused on improving the budget process and public sector reform (e.g. the subsequent waiver of conditionalities was accompanied by a note requesting the Government to focus on the need for better budget controls and for progress in public sector reform). However, it was not part of a coordinated donor approach, and the conditionalities may not have been the most appropriate (indeed, it was necessary for several conditionalities to be waived for disbursement to go ahead). It too therefore proved to be an intervention with relatively low poverty impact.

Initial indications are that in the next structural adjustment support programme, the EC will fully adopt the joint donor approach (see Box on p.44), which is likely to improve the EC's impact on poverty. The impact of the EC's structural adjustment support programme will also be enhanced if it is better coordinated with the budget support provided through the Food Security budget-line (see below).

Food Security budget support in the context of the PROAGRI sector-wide approach has potential for impact on poverty, but difficulties remain

The transition from food aid to food security in 1996 (see Annex 1.3, p.A4) has facilitated a coherent strategy of support with a focus on institutional reform in the Ministry of Agriculture.⁴⁵ EC support to PROAGRI has been carried out with strong technical capacity and intense involvement in policy areas (mainly through FSU technical assistants). Given the progress that has gradually been achieved through PROAGRI in establishing a sector approach, there is potential for an impact on poverty, but obstacles to reform remain very difficult to overcome (see Box on p.35). Moreover, the focus of PROAGRI (and Food Security budget support) is still insufficiently linked to other sectors, to the budgetary process and to the reduction of poverty.⁴⁶

The impact of the Food Security budget support is uncertain. It has been subject to long delays and the 1996 audit was unable to trace the link between the inflow of funds and the required expenditures, while a recent evaluation noted that the impact of the budget support at household level was unclear, given the limited effectiveness and efficiency of the Government (see Box on p.20, and also Annex 1.4, p.A5). In the context of EC support to agriculture, the Government has strongly argued to the evaluators that the EC's support to Malawi in the form of agricultural subsidies has a negative poverty impact on Mozambique.

Roads – high potential poverty impact, but severely limited by delays, implementation difficulties and poor coordination

Road rehabilitation is essential for poverty reduction in Mozambique, particularly given the need for access to markets for agricultural products and given regional disparities, with an agricultural surplus in the north of the country.

⁴⁵ Of the financial proposals for the Food Security Programme that were approved in 1996, 1997 and 1999 by the Food Aid and Security Committee, € 20.4 mill was made available for budget support to a number of ministries, € 13.0 mill was for NGO projects, € 2.94 mill was for the EC Food Security Unit, € 2.8 mill was for institutional support to MICOM, € 2.05 mill was for a Domestic Grain Marketing credit facility, € 1.5 mill was for financial management reforms in the Ministry of Agriculture, and € 1.05 mill was for a Small Emergency Food Reserve. In addition, a Multiannual Food Security Programme for the years 2000-2 was approved in October 2000, and includes components of budget support, institutional support to the Ministry of Agriculture, mixed crop promotion (private sector development), and NGO projects.

⁴⁶ The FSU has contributed reports to support discussion in a number of policy formulation areas.

EC programme by regions – uncertain poverty impact

Little geographical focus in the rehabilitation programme

There was little geographical concentration during the early years of the rehabilitation programme. The dispersion of the programme stretched the EC's managerial capacity and limited the focus on poverty, with per capita expenditure highest in Maputo City (the province with the lowest poverty incidence). (EC 1999g, pp.43-45.)

CSP and NIP call for geographical concentration, but dispersion continues

More recently, the EC has attempted to increase geographical concentration. For the 8th EDF, the CSP calls for a focus on the provinces of Zambézia and Nampula, with some activities in neighbouring parts of Niassa and Sofala, though with no clearly explained rationale. The NIP calls for a focus on the regions with the highest population density.

Many of the EC's programmes do not have a geographical focus (e.g. structural adjustment support programmes). However, there is evidence that public expenditure on the social sectors has not been targeted at the poorer regions.

In spite of the attempt at concentration, EC funds have continued to be dispersed across a number of provinces. Several recent programmes have been focused on Zambézia and Nampula: road-building programmes have been in Zambézia, Sofala and Nampula; Rural Health System Rehabilitation has centred on Zambézia; and half of the Rural Development Programme is earmarked for Zambézia. However, other interventions are concentrated in other provinces (e.g. ZAMWAT will cover Tete and Manica, while the RDP and the 4th Micro-projects programme will channel funds to Inhambane, Cabo Delgado, Manica, and other provinces).

Impact on poverty is not clear

The poverty impact of the EC's approach is not clear. The three provinces with the highest poverty incidence – Sofala, Inhambane and Tete * – do not receive the bulk of EC support. However, an analysis of poverty impact would need to take into account the geographical concentration of other donors and the complementarity of the EC. An assessment of poverty impact would also need to take into account the absorption capacity in different provinces (either of local administrations or of NGOs).

Difficulties in targeting poverty and provinces

During preparation of the RDP, some care was taken in the selection of target provinces, carried out with the Government. However, while Annex 1 to the Financing Proposal proposes important selection criteria, the weighting of different criteria is not clear. The analysis also shows some of the difficulties in defining targets for poverty reduction.

The rationale for targeting is also complex in the area of food security. EC food security interventions through NGOs are deliberately being targeted on a mixture of 'high potential' and 'low potential' areas, for each of which there is a rationale for support. While the 1999 Call for Proposals primarily targeted 'high potential areas', it is proposed that the next Call for Proposals will primarily target 'low potential areas' (e.g. Gaza).

* All data on poverty incidence from Govt. of Mozambique (2000).

However, the large ROCS programme (which provides the framework for the EC's interventions) did not have poverty reduction at its centre.⁴⁷ The impact of ROCS has also been limited by underestimation of maintenance demands (both financial and institutional), an institutional framework that is still weak, and limited donor coordination (see Box on p.34). The poverty impact may also have been limited by the use of technology that requires high maintenance and which has not included local contractors or community participation.

⁴⁷

Except for the nationwide Feeder Roads programme component and the fact that ROCS2 included some support to agriculture in priority districts.

Recently, however, ANE, with the World Bank, has been developing its capacity to monitor the impact of roads on poverty, gender⁴⁸ and HIV/AIDS. ANE is now preparing both a study on the socio-economic impact of roads and a study on HIV/AIDS.⁴⁹

Other donors and the Government have strongly made the point that the EC has been very slow to deliver in this sector (see Box on p.48). In interviews with the evaluators, a number of Government officials noted that EC delays have contributed to slowing down the completion of the north-south road link and that this has significant poverty and political implications.⁵⁰ However, the reasons for these delays are complex.⁵¹

Examples of delays include the Nampula-Nacala road, which was included in the ROCS appraisal under Phase 1 (1995-1996) of the programme but which has only recently been approved for 8th EDF funding. The Namacurra-Ligonha road was also included at ROCS appraisal, but funding for the feasibility study was only approved by the EC in January 2000.⁵² In addition, implementation of the Beira-Inchope Road and the Emergency Support for Roads Rehabilitation in Sofala suffered from long delays and excessive cost over-runs.

As in the agriculture sector, the EC realises the importance of a greater focus on institutional capacity and donor coordination, but staff resources are still limited in this sector. The need for more socio-economic and environmental impact assessments (as well as the need to focus on maintenance, local contractors, and the use of alternative technologies) is also now recognised by the EC.

Poverty impact in the health sector may also improve with EC moves to a sector-wide approach

The Rural Health System Rehabilitation programme in Zambézia (€ 22 million) had high relevance, targeting a province with very poor health indicators and the lowest Government health spending per capita.⁵³ Programme design benefited from including institutional components at both central and provincial level. The programme, however, has been subject to serious delays which are affecting its poverty impact. However, the weakness of the Government in this sector has led the EC to strengthen its sector capacity and to become involved in the health

EC support to AIDS programme

The EC has committed nearly € 10 mill of support (from a variety of sources) to the Government's programme to combat STD/AIDS since the programme was launched in 1988. The current EC programme (€ 5 mill), funded through the 6th EDF, has been running since 1997, and is supporting the Government's multi-sectoral National Strategic Plan.

The EC programme includes a technical assistant in the Ministry of Health, training of district health personnel, support for an information system for STD/HIV surveillance, supply of medical and laboratory materials, and education projects (through NGOs).

No evaluation of the EC's AIDS support has yet been carried out, and it is therefore difficult to assess its impact. An evaluation of the 12-year programme is scheduled for late 2000.

⁴⁸ The December 1999 World Bank mission suggested an action plan for gender issues.

⁴⁹ Initial indications are that road-building has significantly contributed to the spread of HIV/AIDS.

⁵⁰ See also World Bank (1998b), p.75: "...the time-consuming procedures for the EC-financed sections of the road network have given rise to concerns from GOM, not least because these sections are located in the central provinces of the country, and the delays that have taken place – two years or more – have, in the view of some Mozambican observers, tainted the success so far achieved under the whole program."

⁵¹ They include weakness in design, poor contract management and supervision, insufficient EC staff monitoring, complex EC procedures, and weak Government institutions. See Annex 1.1, p.A1.

⁵² The Feasibility Study of Roads EN1 between Namacurra and Rio Ligonha and EN231 between Nampevo and Cuamba was prepared in March 1995 for DNEP.

⁵³ 1998 figures suggest that Zambézia has remained the province with the lowest Government health spending per capita (Management Sciences for Health, 2000, p.9).

sector-wide approach (see Box on p.36). The EC has also supported the Government's AIDS programme, though the impact is not yet clear (see Box on p.24).

Rehabilitation programme – dispersed, with relatively low impact on poverty

The EC's focus in the immediate post-war period on relief (including food aid, which ended in 1996 – see Annex 1.3, p.A4) and rehabilitation had direct relevance to poverty reduction. The 'rehabilitation programme' consisted principally of relatively rapid physical construction projects (health facilities, schools, water supply), implemented largely by international NGOs to avoid Government implementation structures that were then particularly weak (especially in RENAMO-controlled areas). However, a number of evaluations have reported weaknesses in this approach which seriously limited its impact on poverty (see Annex 1.2, p.A2). Project selection lacked a strategy, and did not include either poverty impact assessments or gender mainstreaming. There was a focus on physical rehabilitation rather than institution-building, there was a low emphasis on financial sustainability and limited participation of beneficiaries, and the EC was not involved in sector policy discussion. There was also little project monitoring.

...but the rehabilitation programme has been replaced by a more integrated (but complex) intervention (RDP) and by a gradual move to more strategic support. Under the 8th EDF, a Rural Development Programme has been designed, with the aim of improving poverty impact by building on the lessons learnt in evaluations of the rehabilitation programme. In particular, an attempt has been made to integrate NGO support with central and provincial Government planning and budgeting,⁵⁴ to look for greater beneficiary participation, to use impact indicators, and to achieve closer donor coordination. Project preparation was supported by missions of a poverty expert (and also a gender expert) from headquarters, and a poverty and gender specialist will support the programme.

However, in interviews donors noted that the programme may be over-ambitious, with limited integration between the large number of components (several sectors, several provinces, and many individual projects). The programme may also be affected by capacity weakness at provincial and district levels or in the sector approaches (in education and health), as well as by the EC's own limited involvement in the education sector in the past. At this moment it is difficult to assess the likely impact of this intervention, as many implementation details still need to be finalised (see initial programme assessment in Annex 1.5, p.A6).

More strategic support through NGOs

It is hoped that support through NGOs from different budget-lines and from the RDP will benefit from the adoption of a more strategic approach to project selection (see p.47). In particular, the use of Calls for Proposals should allow the EC to apply project selection criteria more systematically. In addition, the FSU has produced a number of papers and seminars on the role of NGOs in the agriculture sector, and the EC is attempting to increase the links between NGO projects and sector-wide approaches. These factors should contribute to a higher poverty impact.

However, EC food security support is still insufficiently linked to other EC instruments (including the new Rural Development Programme and also structural adjustment support¹) and this limits the poverty impact of the programme.

The EC is in the process of preparing a strategy paper supporting NGOs which calls for the strategies underlying different instruments to be harmonised and to fit within the overall strategy aimed at reducing poverty (see Annex 1.6, p.A7).

1. One component of the Food Security budget-line is intended to work with NGOs on the 'consumption' aspects of poverty (i.e. in the agriculture sector), while the RDP is intended to work with NGOs on 'non-consumption' aspects (see p.61).

The effectiveness of working with NGOs to reduce poverty could be significantly enhanced through the use of Calls for Proposals. This system is currently being used by the Food Security budget-line and is to be used in the RDP. The poverty impact of these new interventions is also expected to benefit significantly from the EC's work in developing a new framework to work with NGOs in Mozambique (see Box on p.25).

Rapid EC response to the floods

Given the vulnerability of the Mozambique population, environmental disasters have a large impact on poverty. It is particularly important, therefore, that the Government and donors respond rapidly to disasters such as the floods in February 2000 (see Annex 1.7, p.A8). Initial indications are that, in spite of the weakness of the Government's disaster response mechanisms at the time of the floods, the short-term response was effective, because of both a concerted effort by the international donor community and also a high-level response by the Mozambican Government.

The response of the EC has also been rapid. In the short-term response to the floods, ECHO made available over € 9 mill of assistance, more than half the support going to Gaza province. The short-term response was also supported by counterpart funds from the food security budget-line, while some existing NGO projects reoriented their activities. For its medium-term response, at the International Reconstruction Conference in Rome in May 2000 the EC pledged € 67.5 million for reconstruction.

The largest EC programme is the € 20 million Post-Flood Reconstruction Programme in Gaza Province, which provides for both flood protection infrastructure and the rehabilitation of urban roads. Effectiveness in the implementation of this programme is however less clear, given Government weaknesses. Moreover, a number of donors are concerned that, because of the Government's weak management capacity, the focus on rehabilitation may weaken development plans.

C. Environment and gender

Limited attention to gender issues but some recent increase in focus, e.g. through RDP

There has been weak attention to gender issues in the design of EC programmes. In the **rehabilitation programme** in none of the projects assessed in the programme evaluation had there been any gender-awareness in project proposals, gender needs assessments, or the collection of any gender-disaggregated data, and the EC had not assessed the projects in terms of their likely gender impact. The Delegation also acknowledged to that evaluation that "a gender strategy is lacking" (EC 1999g, pp. 29-30).

In the roads sector too, "throughout the design and implementation of ROCS1 and ROCS2 there has been a visible lack of gender focus",⁵⁴ and a gender action plan was suggested in December 1999. ANE has recently established a gender unit. In EC roads projects, there has been an even more limited analysis of poverty, gender and environmental issues, given the smaller resources available to the EC for work in these areas (though the Delegation is conscious of the importance of strengthening its work in this area).

Gender issues were not considered in the CSP or the NIP for the 8th EDF. Nevertheless, some improvements may still be expected in the gender impact of the 8th EDF (see Box on p.27).

⁵⁴

Line ministries are to form part of the RDP Steering Committee.

⁵⁵

World Bank (1999a), gender section.

There is a gender contact point in the Delegation but there is no capacity for mainstreaming gender across the EC's project portfolio, and the workload of the Delegation makes it difficult to give sufficient attention to this area.

Environment remains a low priority in the EC programme

Although there has been an increased focus on poverty both by the Government and the EC, there has been limited attention given to environmental protection. While a Delegation adviser has responsibility in this area, his role consists principally of reviewing project proposals for funding under the Environment and Tropical Forestry budget-lines, each of which has provided for slightly more than € 2 million of project funding in Mozambique since 1993. There has not been a systematic review of the likely environmental impact of EC projects.

In the roads sector, for example, even in recent roads project there is not a clear strategy on how specifically to control the moderate environmental risks. It is expected that the environmental impact of EC roads is moderate because they only involve rehabilitation and are not new roads. The 1998 field manual on the environment and the 1996 environmental guidelines for road works are not always followed.

A small project to support the environment is a € 1.5 million 7th EDF project to support the National Directorate for Tourism, with the aim of ensuring that regulations and planning in the tourism sector reflect environmental concerns.

Possible sources of improvement in gender impact

- Delegation staff received training on gender mainstreaming in 1998 as part of the African Gender Training Project.
- In February-March 1999, a mission to Mozambique was carried out by a gender expert commissioned by the EC. Her role consisted primarily of giving advice on how gender issues could be incorporated within forthcoming EC interventions, in particular the RDP.
- A poverty and gender specialist is to be appointed within the RDP. While there have been delays in the appointment of this specialist, which may limit their influence on programme design, the EC hopes that the specialist will be in place by the time of the appraisal process for projects to be supported.

3

Explaining the performance of the EC's aid programme

This chapter examines the key factors which explain the performance of the EC's programme in achieving the EC's priority objectives: good governance, poverty reduction, environmental protection and gender equality.

Section A looks at the EC's performance in Mozambique in strengthening the institutions of both Government and civil society. The up-to-date understanding of what makes aid work is that "Aid is financing the entire public sector, and the overall quality of policies and institutions is the key to securing a large return from this finance.... [T]he most critical contribution of projects is not to increase funding for particular sectors, but to help improve service delivery by strengthening sectoral and local institutions".⁵⁶ A key determinant of the performance of the EC's programme is therefore its contribution to supporting institutions and policies in Mozambique.

Section B looks at donor coordination. Since aid financing is typically fungible, the performance of EC aid depends not only on the quality of the EC's own interventions, but also on the EC acting together with other donors.

Section C looks at how these two key factors – the EC's contribution to strengthening institutions and donor coordination – have been affected by the EC's own resources and procedures.⁵⁷

A. In supporting Government and civil society institutions

i) EC support to Government institutions

Since the beginning of the reform programme (1987) donors have failed to focus on public sector reform and have continued to weaken Government capacity through the use of non-transparent salary top-ups for civil servants and parallel Government structures⁵⁸ (though the EC is now taking a strong line against these practices). Donors are concerned about corruption issues and the quality of public expenditure controls and efficiency. EC interventions have made very little positive contribution in these areas.

Recent initiatives on a joint donor approach to budget support and on sector-wide approaches offer possibilities for improvement. However, donors will need to stop using salary top-ups.

Extremely weak Government capacity, but poor support from donors

The reform programme initiated in 1987 has not supported public administration reform consistently. Aid money has supported a significant increase in Government expenditure (in roads, social sectors, etc.) but without providing commensurate support to the capacity to

⁵⁶ World Bank (1998a), p. 3.

⁵⁷ This discussion refers also to the EC's efficiency in aid management.

⁵⁸ The use of project implementation units instead of existing Government set-ups has been found to result in the unsustainability of projects, Mozambique Country Assistance Review, World Bank OED, 1998, p.42.

manage and account for these funds. Instead, programmes have often been designed and implemented by foreign consultants and donor officials, with limited input from the Government. Indeed, 13 years after the beginning of the reform programme, donors interviewed by the evaluators emphasised that their aid programmes are severely constrained by the poor capacity of the Mozambique administration, for both project implementation and financial controls. As noted in Chapter 1.A (p.7), there is a risk that weak capacity may even affect macroeconomic management, where financial programming depends on a very small number of staff.

As early as 1992, the World Bank's Executive Directors urged that an ambitious programme would require "devoting much more attention to creating public administration capacity, civil service rationalization, and to implementation problems".⁵⁹ But in 1998 an evaluation found that "...the Bank's project activities in this respect (Government capacity) have been piecemeal, ineffective, and unsustainable". "Moreover, severe problems of capacity in public administration, still unresolved, could have been tackled earlier and more effectively if the solutions (...) to the salary reform problem had been developed earlier and pursued more vigorously."⁶⁰

An action plan for public administration reform was presented at the Consultative Group meeting in 1997.⁶¹ The Prime Minister was initially in charge of this initiative, but commitment was weak and progress was very slow.⁶² Since the 1999 elections, a new Minister of State Administration (MAE) has been holding discussions with the World Bank on support for the preparation of a reform strategy, and another Inter-Ministerial Committee has been created.

It is important that donors recognise that effective support for public administration reform relies on political understanding as much as technical skill,⁶³ and requires in-depth knowledge of country conditions (see chapter 1.A). It requires a coordinated approach from key donors and firm (and verifiable) Government commitments.

Inappropriateness of PIUs and top-ups

- "The inappropriateness of PIUs rather than using (and improving) existing institutional set-ups for project execution has been confirmed in Mozambique." p.42
- "In some areas, capacity is still weakening as the best staff are drawn out of the civil service by higher wage offers from private firms and donors." p.44
- "Some donor (including Bank) practices respecting local hire and project execution 'enclave' units have been counterproductive, weakening the same ministries responsible for the investments and services the aid activities are designed to strengthen." p.44

Source: World Bank (1998b).

This non-transparent remuneration system both fragments Government departments, and also creates an incentive-structure that limits Government ownership and makes difficult the transition towards sector-wide approaches. In PROAGRI, for example, it appears that resistance to moves towards a sector-wide approach has arisen because of this incentive-structure.

⁵⁹ World Bank (1998b), p.6.

⁶⁰ World Bank (2000c), p.43-44.

⁶¹ Previously, at the June 1996 Fiscal Management Review, the World Bank, other donors and the Government had proposed a donor-funded accelerated civil service reform in the Ministry of Planning and Finance.

⁶² An Inter-ministerial steering group was also created but no technical support appointed. However, a piecemeal TA support to the PMO was provided by donors (partly the EC). Delays in the Public Administration Training System (SIPAF), a PFP commitment, and the presentation of a strategic plan for June 2000 (also PFP) are significant.

⁶³ See World Bank (1999c) and Caruthers (1999).

Support to public administration reform has not yet benefited from a joint donor approach. It is important that the joint donor approach to budget support (see p.44) provides a serious focus on public administration reform. So far the work of the donor Working Group on Public Administration appears not to have been very effective. The Development Partners Group proposed in June 2000 to reinforce the dialogue with the Government on public sector reform. In this context, the EC Delegation also volunteered to chair and revitalise the donor Working Group on Public Administration Reform. However, although critical, this is an area where the EC does not have comparative advantage and which could demand considerable staff resources.

Donors' have weakened public administration through salary top-ups and through not using existing Government institutions

It is not only that donors have made little contribution to public administration reform – they have also contributed to weakening public administration by using semi-autonomous project management units and by recruiting Government officials to work in their own projects, through the use of salary top-ups as incentives or through consultancies (see Boxes above and below on the effects of these).

As a result of donor pressures to disburse (and competition among donors), the use of salary top-ups by donors is now pervasive in many Government Departments. It is carried out non-transparently, and donors often would not recognise who they are paying in a given Department.

Is ownership possible in a context of low Government capacity and the use of salary supplements by donors?

Weak Government capacity may be particularly problematic in the context of the recent emphasis on ownership. BWI reform programmes in the past were mostly owned by BWI staff and included a large number of conditionalities. More recently, the Comprehensive Development Framework, the Poverty Reduction Strategy Paper (PRSP) and sector-wide approaches all assume ownership by the Government and are particularly demanding for governments, requiring active consultation with many stakeholders.

In Mozambique, the PRSP is constrained by the weak capacity of the Government (see p.4) and by the many other areas where the Government is asked to make progress (e.g. public expenditure management, public administration reform, etc).

Moreover, there is a difficulty of emphasising Government ownership in a context where some senior Government officials receive salary top-ups from some donors' individual projects.

... but the EC has recently adopted a policy of phasing out salary supplements. The EC, like most other donors, has used salary top-ups to facilitate the implementation of its projects. More recently, however, the EC Delegation has had a consistently strong policy to phase out salary top-ups for Government officials in all its programmes. In particular, it is currently phasing out a large package of salary top-ups in its Rural Health Rehabilitation Programme in Zambézia. This new policy is very difficult to implement, as it is resisted by many Government officials. In interviews with the evaluators, the NAO office also noted the important role of salary supplements to Government staff.

The Delegation is pursuing this issue through dialogue with the Government. However, while a number of other donors (including USAID) have recognised that the EC is following best practice, it is unclear how many donors will follow the EC's policy. This is an area where there is very little transparency and real cooperation among donors (see p.41). The EC faces the difficulty that if other donors do not follow the same policy, the implementation of EC interventions will be affected.

EC structural adjustment – weak support to public expenditure management and controls

In the face of continuous weaknesses of the budgetary process and financial controls in Mozambique, donors have had little consistent focus or success in this area.

EC structural adjustment support has faced difficulties in the transparent management of funds. Initial EC structural adjustment programmes (SIP 1 and SIP 2) suffered from poor management of counterpart funds.⁶⁴ While this situation did improve somewhat, a recent audit of GIP 3 noted that “the use of funds had certain notable weaknesses at provincial level”, and it was unable to express any assurance on the Statement of Receipts and Expenditure related to budget execution.⁶⁵

GIP1 and GIP2 did not contribute to public expenditure management reform. 7th EDF programmes (GIP 1 in 1992, GIP 2 in 1995⁶⁶) intended to support budget restructuring in favour of the social sectors. However, the TA programme was focused only on the management of counterpart funds.⁶⁷ The programmes focused on obtaining information on budget execution rather than on supporting public expenditure management jointly with other donors. Moreover, a number of factors have resulted in delays in disbursement of GIP funds (including GIP3) compared to initial plans, and this has complicated both cash and budgetary management for the Government.

GIP3 – more focus on public expenditure management and public sector reform but little success. EC Headquarters has begun to give increased importance to public expenditure management since 1997, e.g. officially requesting the IMF to give greater prominence in their programmes to reform of the budgetary system. In this context, GIP 3 attempted to address these issues by introducing conditionalities on public administration reform (through a floating tranche) and a number of conditionalities on improvements to public expenditure management.⁶⁸ The programme also argued forcefully for the inclusion of a new TA in the Treasury Department of the MPF, introduced in August 1999.

The EC programme was ultimately not successful. Donors perceived the programme as having conditionalities outside the BWI programme. Although the Government signed the agreement, it had very little ownership of the programme and the EC had very little ability to influence the Government. As a result the Government did not meet many of the conditionalities. The release of the second and third tranche of GIP3 only happened in May 2000 after the EC waived a number of conditionalities, when funds were urgently needed to assist with the flood emergency. However, on the release of funds, the waiver of conditionalities was accompanied by a note from EC Headquarters requesting the Government to improve its financial controls on public expenditure and to make progress in public administration reform.

⁶⁴ See Annex 5 of Financial Proposal of Support for Structural Adjustment Project - GIP.

⁶⁵ It also found the “absence of an efficient system of public accounting” (p.21) and that “there are no procedure manuals with a sufficient detail to allow the creation of routines and procedures, which could improve the compliance with law”, EC (1999h), p.29.

⁶⁶ Only signed in 1997. GIP2 was prepared and approved when the country was off-track on its IMF agreement.

⁶⁷ The TA programme 1995-2000 also had limited success in building capacity in this area, suffering from a weak Government counterpart.

⁶⁸ The appraisal focused on a number of key issues such as the capacity of the Treasury Department, the role of autonomous public bodies, accounting, civil service reform, training and wages. A total of 8 specific conditionalities were included, in particular the publication of secondary regulations for the implementation of the Lei de Encuadramiento and a “first significant concrete step” toward the updating of the current legal framework for accounting.

MPF: potential benefits of joint donor support

In November 1999, the Government made a request to a number of donors to extend their ad hoc support for the UNDP's *Programa de Capacitação Institucional para a Gestão Económica e Financeira do Estado 1995-1999*. This request came to individual donors and did not provide a systemic approach to capacity-building in the Ministry of Planning and Finance. However, rather than providing separate responses, a group of donors proposed in February 2000 a common funding pool for TA for the MPF.¹

The pool would be based on a ministry-wide assessment of TA needs, on an evaluation of previous proposals, a personnel policy for retention, benchmarks, an exit strategy, common procurement, and independent auditing. At the time of the mission, the Government was still studying the donor proposal. However, it is clear that this comprehensive approach would counteract the negative impact of non-transparent salary supplements to Government officials, as well as promoting a comprehensive programme.

1. The EC signed the common letter in February 2000 along with Netherlands, United Kingdom, Denmark, Ireland, Norway, Switzerland and the World Bank.

Even the acceptance of the TA in the Treasury by the Government was subject to significant delays. This programme was not well coordinated with Swedish TA support to the Accounting Department (which has been in place for 10 years). This institutional support was another example of an isolated intervention, and is unlikely to have a significant impact if it remains unchanged.⁶⁹ Previous isolated TA interventions have faced similar problems, e.g. support for counterpart funds management and the 1997 support to the Prime Minister's Office on public sector reform.⁷⁰ See the Box for an example of the benefits of a joint donor approach to institution-building.

EC structural adjustment institutional support may become more effective in the context of initiatives of the group of donors working for a common approach to budget support. Many of the weaknesses of the EC's structural adjustment support may be overcome by following the joint approach to budget support being developed by a group of 7 donors,⁷¹ supported by the EC and by the Bretton Woods institutions (see Box on p.44). The focus on public expenditure management and public sector reform could increase under these proposals.

EC interventions in rehabilitation programme, roads and support to elections – weak institutional focus, but changing

The rehabilitation programme consisted of a large number of projects implemented principally by international NGOs, given the weakness of the Government at the end of the civil war. A number of evaluations found that the programme did not focus sufficiently on institutional support.⁷² They found that the EC should have supported an exit strategy for gradually transferring implementation to Government structures, and that there should have been greater support for decentralised Government institutions.

⁶⁹ Evaluators had discussions on these issues in the Treasury Directorate (including with TAs) and with Sweden and other donors.

⁷⁰ Support was to the Prime Minister rather than to broader institutions. RIPA (1997).

⁷¹ See Nordic Consulting Group (2000).

⁷² See EC (1998b), pp.106 and 108-9. Similarly, EC (1999g) states that "the EC's 'Rehabilitation Programme' in Mozambique has focused more on reconstruction and improvement of infrastructure than on the reform and reinforcement of institutions" (p.39).

Elections. While EC support for elections has been appreciated by both the Government and other donors, it has not helped to build sustainable capacity, focusing instead on ensuring the short-term smooth running of each electoral process in turn.⁷³ Although support has always been difficult because of the weaknesses of STAE (particularly in financial procedures at district and provincial level⁷⁴), the importance of building capacity – and also consensus between the political parties on electoral issues – cannot be underestimated.

Roads. While the EC was the third largest donor in the roads programme (ROCS) initiated in 1992,⁷⁵ its approach has largely been to leave policy and institutional issues to the World Bank as lead donor in the sector (see Box on p.34). Moreover, the EC has had limited staff capacity in the sector for involvement in institutional issues, and this limited capacity has even affected the implementation of the EC road projects.

However, after 8 years of ROCS, capacity constraints remain within DNEP and its replacement body ANE, and an adequate institutional framework has not yet been achieved (including the autonomy of the road fund for maintenance and the autonomy of ANE). Moreover, a recent supervision mission of ROCS2 noted not only the very weak monitoring of civil works and consulting services contracts, but also the weakness of ANE's accounting system, including delays in audits of project accounts and the revolving fund, and serious deficiencies in internal controls on the road fund accounts (see Box on p.34).⁷⁶ This environment (together with internal EC problems) has affected the implementation of EC projects, contributed to delays (see Box on p.48) in the Beira-Inchope Road and emergency roads in Sofala,⁷⁷ and has affected the sustainability of all roads projects and their poverty impact. In part because of financial control weaknesses in EC projects, the EC has recruited a TA to work with ANE.

The EC has recently increased its capacity to monitor institutional developments,⁷⁸ and has adopted a policy which makes new road projects conditional on the presence of an adequate institutional environment (particularly for road maintenance). The EC is also looking for ways to enhance coordination with the World Bank (see p.44). However, given capacity constraints the EC still appears reluctant to increase its support to institutional aspects of road construction (e.g. the recent Nampula-Nacala road includes only a very modest training component – 3 engineers).

⁷³ EC support did include a TA component which included capacity-building activities. However, the long-term impact is unlikely to have been large. A recent evaluation mission reported that while the CNE and STAE in principle should be permanent and independent, in practice they are very limited in both respects, which reduces the effectiveness of measures aimed at institutional strengthening (see pp.14-20 of H. Boneo & A. Correia, *Support to the General Elections in Mozambique: Evaluation Mission Report*, September 2000, forwarded to the evaluators by the Delegation).

⁷⁴ A KPMG audit states that “While an effort was made by project management to install a basic accounting system significant deficiencies were noted in respect of overall financial management of project funds. The system in place to a large extent allowed head office expenditure to be properly accounted for but was inadequate to ensure the same in respect of expenses incurred at provincial level.” EC (1998a).

⁷⁵ € 100 million, 7th and 8th EDF.

⁷⁶ World Bank (2000a).

⁷⁷ The programme for road rehabilitation in Sofala was approved in November 1993 and was expected to have an implementation period of 2 years (the difficulty of carrying out surveys of road conditions at the design stage should be noted).

⁷⁸ Contract with road sector consultant, that included two missions in 1999. But note that this consultant is under contract to the NAO and does not constitute the fully autonomous analysis capacity that the EC would like.

Difficulties of addressing institutional issues in the road sector

World Bank led on institutional support, but weakness of DNEP affected EC interventions

While ROCS1 – the first road programme – focused on the institutional strengthening of DNEP, the EC left most policy and institutional issues to the World Bank.

The large 7th EDF EC projects (Roads Rehabilitation in Sofala and Zambézia, and the Beira-Inchope Road) did not have institutional components. The Beira-Inchope and Sofala roads were subject to significant delays and cost over-runs,¹ while other projects (Nampula-Nacala and Namacurra-Rio Lingonha) were included under ROCS but have not yet been built. There are a number of causes of this (related to both the EC and the Government). Capacity constraints in DNEP have contributed, particularly given that DNEP concentrated its efforts on working with the World Bank and had difficulty dealing with the relatively weak management of EC projects and the complexity of EDF procedures.

Large international TA support to DNEP, but slow progress

The 1998 Review of ROCS I and II found that ROCS II should have been split, as this would have “allowed DNEP to more gradually build up its implementation capacity and could have avoided some of the implementation delays resulting from the lack of capacity to handle too many project components at the same time” (p.3). It also found that 55 new engineers were trained in the course of ROCS but that the staff were still very inexperienced. Given that human resources were extremely scarce, ROCS relied on a very large TA programme. This resulted in a situation in which 2-3 Government engineers had to manage up to 50 TA from different consultancy companies, causing a number of problems.² Progress in this area was also affected by the lack of progress in public administration reform and the difficulty of retaining staff. The difficulty of building local capacity was underestimated.³

ANE has been established, but the autonomy of the Road Fund is still unresolved

The May 1998 ROCS review noted that the ROCS I recommendations on the autonomy of the Road Fund and the autonomy of DNEP should be implemented without delay (“utmost importance for the well functioning of the road sector”). However, while at the time of the evaluation mission a roads authority had been created, autonomy had not yet been achieved for ANE or for the Road Fund.⁴

Maintenance issues are therefore still unresolved, which is particularly problematic given that 20,000 km of roads have been improved at “relatively low standards, requiring constant and attentive maintenance” (1998 ROCS Review, p.6). The ROCS Review recommended consolidating achievements by focusing on maintenance. Similarly, the World Bank’s *Country Assistance Review* noted that more careful fiscal and economic analysis of the Government’s maintenance demands was required.⁵

ANE capacity (including financial controls) is still weak

Capacity has increased in ANE and ANE is expanding its capacity to monitor the poverty, gender and HIV/AIDS impact of road-building. However, ANE now sees less of a need for long-term TA and has only 5 long-term positions, for specific tasks.⁶ It has access to a joint WB/ADB pool of funds for recruiting short-term consultancies. However, ANE recognises that its young engineers are insufficiently experienced to supervise large contracts, and that capacity at provincial level is particularly low.

Also, importantly, financial controls at ANE appear weak. A March/April 2000 World Bank supervision mission noted not only that “monitoring of civil works and consulting service contracts very weak”, but also that an action plan to address accounting weaknesses had not been implemented, and that auditing of project accounts, the revolving fund and the road fund were not carried out in a timely manner.⁷ The extent of deficiencies in internal control on the Road Fund account for December 1996 was an issue of strong concern for the supervision mission.

1. EC (1999b).

2. See GoM/WB (1998), and evaluators’ interview with Director of ANE (previously DNEP).

3. While ROCS1 provided cars and houses, work incentives for public employees were not achieved. The ROCS1 proposal (p.4) notes the importance of linking progress in this intervention to overall public administration reform. ROCS 2 documents show a conscious effort to design TA support that “builds capacity rather than destroying it” and to phase out long-term consultants.

4. See EC (1999b). At the moment, the Road Fund receives about 45% of the total levy fee. However, the World Bank expects that the situation will gradually improve.

5. The 1998 ROCS Review also found that the participation of local consultants and contractors in ROCS was still very small. A smaller packaging of contracts would have been easier for local contractors.

6. ANE notes that the use of TA can lead to conflicts of interests (vis-à-vis the previous employers of the TA).

7. Draft audit as of Dec 1996 only available.

Interventions in support to sector-wide approaches (where EC has capacity) may support Government effectively

A number of recent EC programmes are benefiting from lessons learnt from previous interventions and have focused on supporting sector-wide approaches and coordination with other donors. However, success depends strongly on the availability of staff capacity. In particular, the EC's strongest performance is in the agriculture sector, where it has substantial capacity. The EC has also been able to increase its involvement in policy dialogue in the health sector somewhat (see Box on p.36). Interventions in the water and education sectors, however, appear more difficult.

Food security support to agriculture sector reform (PROAGRI)

The EC has used budget support from the Food Security budget-line and the staff resources of the Food Security Unit to provide important professional support to the Government's sector-wide approach in agriculture (PROAGRI) – see Box. The EC has won the respect of other

PROAGRI: Important EC contribution, but slow progress

While the PROAGRI process has been advancing very slowly, progress has been achieved. Important milestones are:

- 1995: Ministry of Agriculture produced its Agricultural Policy (PAEI)
- October 1997: Donor meeting in Copenhagen, to discuss common implementation issues
- April-May 1998: Donor appraisal, presentation of 5-year Sectoral Investment Plan, approval of "basic principles" to which donors and Government are committed
- October 1998: first joint donor/Government annual review
- March 1999: Donor meeting in Dublin, to discuss (a) a common disbursement mechanism, (b) a common staff incentive structure, (c) reviews of annual workplans and budgets

The slow pace of change reflects difficulties in the harmonisation of procedures, the financial management of funds, and reforming the remuneration of Government staff. PROAGRI shows not only the potential benefits of a sector-wide approach but also the immense difficulty of implementing such an approach. Initially much time was spent in discussing the harmonisation of donor procedures and the risks of channelling funds through the Government's budget.¹ Progress has also been slow because of some uncertainty as to the degree of support for PROAGRI from the central ministries, because of the continuation of a project approach, and because of the differing objectives of the large number of donors in the sector.

However, the key obstacle to progress, according to key donors interviewed, is reform of the remuneration system within the Ministry. A number of donors continue to pay Government staff (through non-transparent salary supplements and consultancies) for the implementation of their projects. This makes it more difficult for PROAGRI priorities to be enforced within the Ministry. At the Dublin meeting (March 1999), most donors agreed to support an accelerated remuneration reform in the Ministry, involving the phasing out of salary top-ups as a first step towards an overall remuneration reform. However, the World Bank pointed out that this would create disincentives in other Government ministries, and the policy was not adopted.

Progress has been achieved in moving the discussion on from conditionalities on budget-lines, to benchmarks and to the evaluation of overall budgets and regular audits of funds. It also appears that at provincial level there is growing acceptance of the shift away from a project approach (in which funds are transferred directly to the provinces) to budget support, in which funds flow first to the Ministry. However, greater trust in the system is still needed.²

However, the Government still needs to integrate PROAGRI more closely with its poverty strategy and with other sectors.

1. At the time of the evaluation mission, for example, the World Bank was still awaiting the approval of its headquarters to participate in the joint donor fund.

2. See report of Joint Dutch – FSU/EC Mission to Nampula, 26 January 2000, reporting that funds to Nampula were delayed and insufficient.

donors in the sector for the quality of its inputs into the process,⁷⁹ and it has been nominated to chair the donor working group. However, PROAGRI is still insufficiently linked to a poverty strategy and to other related sectors.

The continued use of non-transparent salary supplements in the Ministry of Agriculture by different donors is seen as the main obstacle to progress in PROAGRI. Therefore, success depends on the transition to a transparent sector-wide (or Government-wide) remuneration system, without salary supplements, and on improvements in the budgetary process at the centre – see Box on p.35. This requires greater collaboration and transparency among donors in their policies on salary supplements and a greater link between the Food Security budget support and the EC's structural adjustment support.

The EC has provided support to financial management reforms within the Ministry of Agriculture, and a number of donors are satisfied with progress.⁸⁰ However, it is reported that progress in financial management is complicated by the fact that other donors retain a project approach and salary supplements in the same Department.

The Food Security budget-line also provides institutional support for the Ministry of Industry and Trade (MICOM) and INGC. Support to MICOM is important given the need for an effective market environment, to complement support through the Ministry of Agriculture. However, it seems to the evaluators that there is much more difficulty in progress in sector reform in MICOM. There is also a risk that work in this area may disperse the EC's capacity across too many institutions.

EC support to sector-wide approaches: health and water

Health. The EC's most recent health sector intervention (Rural Health System Rehabilitation in Zambézia, approved in 1995, but commenced in 1998) shows a move away from the isolated interventions of the rehabilitation programme, towards support for institutional components. The programme has been seriously delayed, but there recently appear to have been some positive indications. The rehabilitation evaluation found that the TA in the Ministry is helping to increase the coherence of the programme as well as its integration into national plans (EC 1999g, p. 51), and programme design appears to be well integrated within the Ministry's structures.¹ However, because of delays, a mid-term review is only now being planned.

A Delegation adviser has participated in policy discussions linked to the sector-wide approach in the health sector. The sector approach appears constrained by the Ministry's planning capacity (and by management capacity at provincial level), and some donors note that Government ownership is weak. Importantly, as in many other sectors, a financial review identified important weaknesses in financial management and suggested the need for a cautious approach.²

Water. The Zambezi Valley water programme, which is in its early stages, supports the establishment of the Zambeze Catchment Management Authority and is intended to build capacity for water management at provincial level. The programme will be managed by a PMU, but at central level the PMU will be a "public" entity, integrated within the Ministry of Public Works.³

1. Civil works and the procurement of equipment are the responsibility of the Ministry, and management of drug funds is the responsibility of the Zambézia provincial directorate. However, the purchase of drugs is subject to EDF origin rules.
2. PriceWaterHouse Coopers (2000). It recommended a 5-year interim period (starting January 2002) in which donors would contribute to a Basket Fund separate from the MoH budget but which mirrored its accounting system.
3. The PMU, principally responsible for preparing annual work-programmes and for concluding contracts, is "formed inside and from the Mozambican administration" (EDF Committee reply to Danish question). However, the provincial-based Supervising Manager (in Tete), responsible for implementation, is a private contractor.

⁷⁹

Including support to policy debate through a series of technical papers and seminars.

⁸⁰

According to the May 2000 joint donor/Government review, "A great deal of progress has been achieved in the financial management and reporting system". However, the FSU notes that the "MINADER's financial system... is a major management bottleneck... the team faces

ii) EC support to civil society and local government

The EC has done much work through international NGOs in Mozambique. However, many EC evaluations in the sector (see Annex 1.2, p.A2) show that the rehabilitation programme lacked a clear strategy, was complex and fragmented, and that this affected its results and sustainability (including weak involvement of local communities).

More recently, the EC, learning from its past experiences, has introduced the Rural Development Programme (innovative but very complex) and the Call for Proposals for support to NGOs through the Food Security Unit.

The EC is also working on an overarching strategy for cooperation with NGOs in Mozambique and is to launch a consultation with civil society (it will also prepare a study on Civil Society Dialogue). This is an important step in moving from a focus on NGOs to a focus on Mozambican civil society (particularly local communities).

Donors' weak links with civil society

While a number of important civil society organisations have begun to achieve a high profile in Mozambique (e.g. the Catholic Bishops Conference during the 1999 elections, and the Liga dos Direitos Humanos), donors have a relatively poor knowledge of civil society. Some donors, however, have supported political parties and the capacity of the National Parliament.

Local NGOs have also noted, in an October 1998 USAID partner retreat, that donors do not have direct contact with local NGOs. Moreover, local NGOs are dissatisfied with their dependence on international NGOs (which do not provide sufficient training for them). The World Bank has initiated a monthly dialogue with a number of NGOs. Similarly the FSU has established Technical Seminars with a number of NGOs. LINK (an NGO grouping) is also contributing to increase the communication among NGOs and between NGOs and donors and the Government.

Donors, including the EC, have also faced difficulties in achieving genuine beneficiary participation (EC 1999g, pp.36-37). This is both because most donors have a weak understanding of Mozambican civil society but also because many local NGOs do not have a close link to local communities. This is in part because of the centralist tradition, because of the limited accountability to local communities of authorities at both provincial and district levels, and because of the dependence of many NGOs on donors or the Government.

The Government has recently been trying to coordinate the activities of NGOs more closely, linking them to sector approaches and clarifying the legal framework (see, for example, Govt. of Mozambique 1999). The Government seems to be aiming to replace NGOs in the implementation of many social sector interventions. This is very different from the past where international NGOs had substantial autonomy. At the same time, however, it is Government policy to outsource certain activities to NGOs (e.g. in PROAGRI). Relations between the Government and local NGOs (and civil society in general) are still very weak. However, it is expected that the PARPA process will contribute to increase consultations.

Past EC support mostly through international NGOs, but without a clear strategy and with weak institutional results

Between 1993 and 1999, the EC approved 325 NGO projects, for a total value of € 142 million, using funds from 10 different budget lines as well as the EDF through Article 254, 255 and the NIP.⁸¹ Many of the serious weaknesses of the rehabilitation programme (see below) may in part be attributed precisely to the multiplicity of instruments that were used in

a tremendous challenge and... it is clear that it will need an extension provided their performance is good enough" EC Food Security Unit (2000a), p.21.

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In particular, through Article 254 and 255 funds, and through budget-lines for rehabilitation in Southern Africa, rehabilitation in developing countries, co-financing of NGOs, and food security.

order to finance the programme. As much as 85% of the programme was channelled through international NGOs, with only 15% through local NGOs.⁸²

EC programmes through international NGOs have had limited impact in supporting local communities or local NGOs (see Annex 1.2, p.A2). Given its delays and administrative complications (e.g. arising also from the use of so many different instruments), the EC is, for NGOs, “often the donor of last resort”.⁸³ This may limit the quality of the project proposals it attracts. Moreover, the focus of EC projects has in the past been on the immediate implementation of projects and physical results, rather than a more institutional approach looking at establishing more permanent links with local communities and looking at the sustainability of projects. Evaluations have reported low impact and sustainability of interventions in the rehabilitation programme.

The use of multiple instruments to work with NGOs in the past has resulted in separate support units. Given capacity constraints the NGO Unit has shifted from the implementation of the rehabilitation programme⁸⁴ to a key role in the preparation of the RDP. At the moment both the NGO unit⁸⁵ and a component of the FSU work with NGOs, and their documents describe a separation based on the support of consumption and non-consumption activities. A future more strategic support to civil society (and the new restructuring of the SCR) may require the EC to reconsider the relation between these units and to draw a clearer distinction between policy and implementation roles (see p.51).

Recent moves to a more strategic approach

The many evaluations of the rehabilitation programme have allowed the EC to learn from its past experience. This has already led to a more focused approach in support of civil society that includes the Rural Development Programme, a more strategic approach by the Food Security Unit to support NGOs (with Calls for Proposals) and by the careful work on developing a strategy for supporting civil society (see Annex 1.6, p.A7).

Rural Development Programme

The multiplicity of instruments used in support of the rehabilitation programme has been somewhat reduced and the NIP RDP programme (€ 30 million) concentrates a large part of the EC support to non-State actors.⁸⁶ In designing the RDP, the EC has tried hard to learn from the lessons of the rehabilitation programme. In particular, a number of mechanisms have been introduced to link the NGO-implemented interventions to Government plans. Provincial directorates will be involved in project identification, and central line ministries will be involved through the Steering Committee which selects the winning proposals (on a *restricted* Call for Proposals). The RDP also includes a € 2 million component for strengthening district-level planning. Project design involved the participation of other donors.

There are many positive features in the design of this intervention (for an initial assessment, see Annex 1.5, p.A5), but many implementation details have not been decided. Given the complexity of this programme, success is likely to depend on the quality of implementation. It is important that the RDP is consistent with Government plans, but it is also important that

⁸² EC (1999g).

⁸³ EC (2000a), p.8.

⁸⁴ This involved making decisions on funding NGOs, but without clear selection criteria or operational independence from the Delegation and Headquarters (see Annex 1.2, p.A2).

⁸⁵ The NGO unit has worked in the implementation of the rehabilitation programme and it is has recently worked on the design and preparation for implementation of the RDP.

⁸⁶ The RDP consists of about 20 projects that would be implemented by NGOs selected by a restricted Call for Proposal (pre-selected by the PMU) on the decision of a Steering Committee (permanent members NAO, Delegation and Ministry of Agriculture).

it genuinely supports local communities. Some accountability of the PMU to local communities will therefore be important. The role in the RDP of provincial directorates and the PMU at district level does not fully ensure local accountability (see also capacity constraints). Transparency in the Call for Proposals is also important in this respect,⁸⁷ as is the need to find modalities to allow the participation of small local NGOs (linked to local communities) and to match the absorption capacity of different sectors and regions.

The links of the RDP to central (and district) plans will depend on the progress of sector-wide approaches (which still have a high risk attached to them) and on capacity at provincial and district level (to ensure funding for recurrent expenditures), which is also an area of difficulty. The financing proposal expressed confidence that INDER would provide support for implementation at an inter-sectoral level, but the situation is now unclear with the integration of INDER into the Ministry of Agriculture.

There may be difficulties (given Government capacity constraints) in the integration of the RDP into sector-wide approaches and into the budgetary process. The work of the Steering Committee (in selecting proposals and monitoring the PMU) is critical, but it may overstretch the capacity of both Government officials and the Delegation.⁸⁸

The introduction of Calls for Proposals

The EC (through the work of the FSU and the NGO Unit) has tried to provide more strategic support to NGOs. In 1997 a first Call for Proposals was introduced for NGO project selection within the Food Security Programme (for projects beginning in late 1998).⁸⁹ The Call for Proposals process increases transparency in the selection criteria and supports the spread of best practice among NGOs. Calls for proposals now require analysis of local partners and capacity-building measures. There have been considerable delays in the approval of proposals, but the process should reinforce EC support to local NGOs that have close links with local communities.⁹⁰ Calls for proposals are also being introduced within the RDP and, from 2000, within the NGO Co-financing budget-line. The FSU has also increased its communication with NGOs and uses Technical Seminars supporting capacity-building.⁹¹

Towards a strategy for cooperation with NGOs but also a wider strategy on support to civil society

Evaluations have found that the EC has lacked an overarching strategy to work with NGOs. However, its wider support to civil society (community-based organisations, etc.) has had even less strategic orientation.

The EC is beginning to address these problems with the preparation of a discussion paper on a framework for cooperation with NGOs (see Annex 1.6, p.A7).⁹² This is an important exercise

⁸⁷ The use of restricted Call for Proposals may not necessarily contribute to greater transparency.
⁸⁸ For example, the fact that the RDP has a large component for education (justifiable on poverty grounds) requires the EC to increase its focus on the sector-wide approach in education, therefore spreading the EC staff resources to another sector.

⁸⁹ The funding for these NGO projects (which was pooled from 1996, 1997 and 1998 budget-line allocations) was not included in any financial proposal that went to the Food Aid Committee (EC Food Security Unit 2000c, p.6). Funding for projects selected by a subsequent Call for Proposals, launched in September 1999, was included in the 1999 Food Security Programme financial proposal.

⁹⁰ There is a risk, however, that weaker NGOs and proposals may be selected if there is not a sufficient number of NGO bids for effective competition for the funds available, since there is a limited number of NGOs that will be in a position to make proposals for specified types of projects at a given time.

⁹¹ Through the FSU, the EC has also since 1998 organised Technical Seminars with private companies and associations, international and local NGOs, public sector entities, and donors.

⁹² Discussions were carried out in March 2000 with Government and NGOs.

which shows serious analysis and a willingness to search for innovative modalities of support. It will contribute to the development of a strategy that is informed by lessons learnt from past EC support (and by the strategies of other donors, e.g. Netherlands). Aims of the exercise include bringing all funding instruments under a single EC strategy and increasing the links with sector-wide approaches.

The discussion paper also proposes a timetable for launching a wide ranging consultation with civil society in order to begin work on the civil society component of the new EC strategy (as per the Cotonou Agreement). This is an important exercise, given the relative weakness of donor support to Mozambican civil society (including watchdog NGOs and community-based organisations). As part of this process the EC is planning to prepare a study on civil society dialogue (perhaps jointly with other key donors). These efforts could be supported by other initiatives for consultations with civil society (e.g. PARPA).

B. Donor coordination

Donor coordination is particularly important in Mozambique. Public finance is highly dependent on donor funds, while instruments for coordination are weak. Donor interventions have a high profile within donors' aid portfolios, and pressures to implement projects are high. Mozambique has followed 13 years of BWI programmes and it is currently in the Poverty Reduction Strategy Paper process (and HIPC).

In this context, while donors collaborate in working groups and sector wide approaches, there is intense donor competition and different donor strategies (e.g. shown by the non-transparent use of salary supplements to Government officials).

In the past, EC coordination has been poor but it has recently improved. The EC is now playing a key role in the discussion on salary supplements and in coordination in the agriculture sector (PROAGRI), and it has shown a willingness to work with other donors and to co-finance other donors' projects in some sectors (e.g. private sector and elections). Coordination in structural adjustment and the roads sectors has been weak. However, coordination could improve with the work of some donors in developing a common approach to budget support. The EC is also focusing on ways to improve coordination in the road sector.

Weak Government coordination capacity impacts on donor programmes

The Government's weak capacity for aid coordination significantly reduces the impact of donor programmes. The Government does not have a strong budget process that can provide a guide as to where donor resources are required. The Ministry of Planning and Finance does not have comprehensive information on donor programmes and there is no Government unit that ensures that donor assistance fits the Government's expenditure plans. Decisions on foreign aid are made by an inter-ministerial committee, which takes more account of political than of technical factors.

Different donors have different Government counterparts and these do not communicate effectively with each other.¹ Many donors (including the EC) work with different units of the Ministry of Foreign Affairs, while the World Bank's counterpart is the Bank of Mozambique and the IMF's counterpart is the Ministry of Planning and Finance. The NAO for the EC is the vice-minister of Foreign Affairs. The NAO office is a special government unit only dealing with EC programmes.

1. For example, the approval of the GIP3 conditionalities by the Government would appear to have received limited feedback from the Ministry of Planning and Finance.

Donors have a number of coordination initiatives but competition is still pervasive (e.g. use of salary supplements)

While donors are engaged in a multiplicity of working groups (some of which are relatively efficient – see below),⁹³ their actions continue to be driven mostly by the need to implement their own projects. Intense competition frustrates real coordination between donors in a given sector.

In particular, with the aim of smoothing the implementation of their own projects, many donors use salary supplements for Government employees and parallel Government structures (PMU or PIUs) in core Government activities. These practices weaken and fragment (rather than support) the capacity of the civil service⁹⁴ and make it very difficult to assess the real ownership and commitment of Government officials to donor interventions (see p.30).

Many donors in Maputo interviewed by the evaluators admitted that there is very little transparency among donors in the salary supplements that they pay to Government employees in different sectors, which affects the trust between donors. The lack of transparency is a very specific and real constraint on the progress of sector-wide approaches such as PROAGRI. More generally, it may render institutional strengthening ineffective since the Government may receive isolated and piecemeal TA support from different donors (e.g. the TA in the Treasury is supported by the EC while the TA in Accounting has been supported by Sweden for 10 years, with still limited coordination between the two).

Multiplicity of donor groups, but some are effective. Slow progress towards common country analysis and approach.

The political mandate to improve coordination for a number of donors has resulted in a multiplicity of donor working groups, only some of which are effective. The Development Partners Group is formed by the heads of each donor delegation but there are many other working groups by sector and sub-sector.⁹⁵ Some of these groups do not meet very frequently or effectively, and there appears to be scope for rationalisation and for coordination under an overarching strategy (e.g. specifying their links to the poverty plan or the public sector reform). However, some of these working groups have made important contributions in achieving a joint approach to budget support and sector-wide approaches (e.g. agriculture). A lead donor is also nominated in each sector. EU donors also select a lead donor in each province.

A number of recent developments have contributed to a closer donor country analysis and strategy. This could have a significant impact in reducing the resources committed by the Government to programming and dialogue with different donors. In particular, a group of 7 donors working on budget support has provided a good model of efficient coordination and quality work, in developing a common approach and common funding mechanism for budget support (see Box on p.44).⁹⁶ The reports produced for this group suggest a convergence in the analysis and strategy to support Mozambique.

However, difficulties in agreeing on a common donor approach were recently illustrated by the failure to prepare a common Development Partners Group statement for the June 2000 Consultative Group.⁹⁷ Important differences in strategy remain, for example between

⁹³ There are also regular meetings of EU Heads of Cooperation (under the chair of the EC Delegation).

⁹⁴ World Bank (1998b), p.44.

⁹⁵ See also ECON (1998).

⁹⁶ Denmark, Ireland, Netherlands, Norway, Sweden, Switzerland and United Kingdom. The EC and the World Bank also participate in the discussions.

⁹⁷ The discussion paper was therefore abandoned as a non-paper. A common statement was, however, prepared for the 1998 Consultative Group meeting in Maputo.

Member States of the EU (e.g. in the emphasis they place on corruption, the country's capacity for absorbing more foreign aid, poverty reduction and geographical inequalities in income, civil society, and dialogue between political parties).

Nevertheless, donor discussions in the context of the Consultative Group provide a forum to set out differences and may be an important first step towards achieving a common country analysis and possibly thereby some convergence of strategy.⁹⁸ A similar role is played by consultations between donors (e.g. during preparation of the World Bank's Country Assistance Strategy). This would be also achieved by working on country analysis and programming together (e.g. there is also a possibility that Sweden and the EC may collaborate closely in the preparation of their new country support strategies).

Differences in approach make it particularly important for donors to support the Government's capacity to work on its poverty reduction strategy (PARPA) and to link this process to an improved budgetary preparation and execution process. A stronger Government capacity for coordination would facilitate the coordination of donors' strategies.

EC donor coordination: very poor in the past but improving significantly

In the past, the dispersion of the EC programme and the use of a multiplicity of instruments contributed to a perception of delays and lack of strategy.⁹⁹ This is part of the explanation of the very low profile of the EC (a major donor in the country) and poor communication with its counterpart (NAO) and other Government departments, as reported in evaluations.¹⁰⁰ Similarly, interviews indicate that coordination and consultations with other donors (including Member States) were extremely weak.

Since the arrival in 1998 of a new Head of Delegation, however, interviews suggest that coordination (and particularly exchange of information) has improved significantly. There appears also to have been a small improvement in relations with the NAO office and the NAO itself. In general, interviews with Government and donors indicate a perception that the Delegation has been able to become more professional in its work. However, the EC still has difficulties in raising the profile of its work, which will be needed to support Government initiatives such as the PARPA.

All donors interviewed by us were very appreciative of the increase in the quality of the EC's participation in a number of donor working groups (e.g. PROAGRI, health sector – see below). The EC has very recently (June 2000) promoted the reactivation of the public administration reform¹⁰¹ working group. However, while this initiative is very important (and should be coordinated with the work of donors in budget support), it would appear that the decision of the EC to chair these meetings should be reconsidered (given that the EC's capacity and past experience is weak in this area).

⁹⁸ This requires stronger capacity to monitor commitments in Consultative Group meetings, e.g. public sector reform in 1997.

⁹⁹ See evaluations of the rehabilitation programme (Annex 1.2, p.A2).but also by some external assessments, "In conclusion, this study finds that, in Mozambique, the EC aid programme is viewed in fairly negative light" p37. See Christian Aid report.

¹⁰⁰ "Both NGOs and the Delegation have experienced difficulties when the involvement of the NAO's office was required." EC (1997), p.11. See also Christian Aid (1999), which reports that slow disbursement is in part attributed to "long periods of non-communication between the delegation and the National Authorising Office (...and...) many misunderstandings between the two" (p.37). A specific example of these weaknesses is shown in the delay in the disbursement of the GIP2 first tranche, in part linked to poor communication on the Government adoption of the budgetary framework law (Note April 1997). Closer consultation was urged from headquarters.

¹⁰¹ Except financial management.

Consultations on NGO projects are also reported to be improving in the context of the RDP (including a joint appraisal mission to target districts, during project preparation) and in the appraisal process for the FSU's 1999 Call for Proposals from NGOs.

Many donors praised highly the Head of Delegation's role in supporting a more transparent approach in the issue of salary supplements to Government staff and for bringing this issue into dialogue with the Government.¹⁰² Donors recognise that this is a very difficult (but important) issue. Many donors also praised the EC for its recent willingness to support other donors' programmes (including through co-financing) – see below.

EC Financial Proposals are discussed with Member States in Maputo before presentation at the EDF Committee and at the Food Aid and Security Committee.¹⁰³ EU Member States and the EC (at the initiative of France) have also produced a database of projects of all EU donors, which offers potential for the efficient exchange of information.¹⁰⁴

EC coordination in different sectors

Structural adjustment: *important coordination problems in GIP3*

GIP1 and GIP2 programmes effectively did not have many reform conditionalities. Coordination was low but it did not affect much the relation with other donors. The profile of coordination in the sector however has been significantly raised by the donor group working on budget support and particularly by the group of 4 (and now 7) “like minded donors”.

The ambitious GIP3 programme included many conditionalities on financial management and public sector reform. Donors noted that while the programme targeted key areas, GIP3 was insufficiently coordinated with them and with the BWI reform programme and introduced too many additional conditionalities. This weak coordination in selecting conditionalities took place even though Mozambique was a pilot for enhanced coordination between the World Bank and the EC. These concerns were already reflected in the discussions at the EDF Committee, and donors still mention this today in interviews as a very sensitive issue.

It is in this context that there is a particular need for the EC to integrate its next structural adjustment support into the common approach and into the procedures recommended by the group of 7 donors working in this area (see Box on p.44). (The evaluators did not have access to the new draft EC budget support operation). This will have the added advantage of giving the EC better capacity to monitor benchmark actions in the area of public sector reform, the budget process, and financial controls. A number of donors (including the EC) are also working on joint support for the capacity of the Ministry of Planning and Finance (see Box on p.32).

¹⁰² The EU Heads of Delegation prepared in June 2000 draft guidelines on the recruitment of Government staff in donor-financed consultancies. This note advises donors not to include Government officials as paid consultants and proposes some minimum rules that should be respected if they are included.

¹⁰³ However, as is usually the case elsewhere too, Member States noted that they receive Financial Proposals too close to the meetings and therefore have limited time to prepare for discussions.

¹⁰⁴ There are also regular meetings of EU Heads of Cooperation (under the chair of the EC Delegation).

Donor group supporting a common approach to budget support

A number of donors involved in harmonising budget support have carried out very effective work, for example high quality joint donor reviews and reports.¹ The most recently commissioned draft report, on *Macro Financial Support to Mozambique* (Nordic Consulting Group, 2000), not only identifies the severe weaknesses in public financial management and public sector reform, but includes a proposal for a common mechanism for macro-financial assistance to the budget. This draft proposal is supported by the BWI and constitutes a model for effective donor coordination in the area of budget support. It should be followed by the next EC structural adjustment support operation. This approach could contribute significantly to enhancing the impact of the EC's structural adjustment and could support a more predictable process (for cash and budgetary management).

See also the discussion (in the Box on p.35) on how donors involved in joint donor support are working together in providing joint TA to the MPF. The work of donors in harmonising budget support has been made possible in part by the leadership of the budget support working group by the Netherlands. However, with the departure from Mozambique of the chair of this group, there is a risk that the group may weaken.

1. Group of 7 donors (recently – previously was 4 donors): Denmark, Ireland, Netherlands, Norway, Sweden, Switzerland and United Kingdom. The EC and the World Bank also participate in the discussions. Joint Donor Review May 1998, on operation of forex exchange mode, JDR February 1999 on macro-financial support as support to budget execution (transparency and accountability).

Roads: *poor coordination between the EC and the World Bank*

The World Bank has been the lead donor in the road sector through the ROCS1 and ROCS2 programmes. As noted on p.33, the expectation was that ROCS1 would focus on building institutions in the sector, while the EC would build a number of important roads within the framework of ROCS. It was assumed that donors would coordinate closely to monitor progress of this ambitious programme. Unfortunately, however, the 1998 Review of ROCS1 and ROCS2¹⁰⁵ concluded on donor coordination “that it is the general opinion of the donor community that the present situation should be improved urgently”. The EC also agrees that coordination between the World Bank and the EC has been weak.

Difficulties of coordination would appear to have arisen in part because World Bank task managers were based in Washington DC, so that coordination was limited to periods when World Bank missions were in Mozambique. However, the EC's limited staff capacity following the road sector has also contributed to poor coordination. Moreover, it would seem that a number of concerns on ROCS (including the crucial issue of ensuring maintenance) could have been better addressed if the World Bank and the EC had coordinated more closely.

The EC's perception is that in some cases the World Bank expects the EC to follow its lead without much consultation. This was seen when between April and June 1999 the World Bank appeared to change its position on the insufficient autonomy provided by decrees 14/99 and 15/99 for the new road sector institutions. However, on this occasion, the EC carried out an independent assessment (with the help of a road sector consultant) and then requested a video-conference to discuss key policy issues in the sector with a large team of World Bank staff (October 1999).

While the EC understands that only the World Bank has the leverage to impose key conditionalities on the institutional environment (and on the implementation of its own road projects), the EC has decided that the management of its portfolio in the country requires it to have more independent knowledge of the key institutional developments in the sector. The

¹⁰⁵

GoM/WB (1998), p.6.

EC has recently strengthened somewhat its capacity in the sector, including its capacity to monitor and assess institutional developments in the sector.¹⁰⁶

Agriculture: *strong EC capacity and leadership in donor support to PROAGRI*

The EC has shown a strong capacity and leadership in the coordination of donor support to the sector-wide approach in agricultural sector reform (PROAGRI). The support of the Food Security Unit (FSU) has been instrumental in making the EC a strong lead donor in sectoral coordination. Progress has been difficult given the multitude of donors in the sector (about 18) and given the reluctance to abandon the project approach (and salary supplements for many units in the Ministry of Agriculture). However, partly as a result of the FSU's cooperation with other donors, the EC appears to have gained the professional respect of all the key donors in the sector. Moreover, the EC (through an FSU staff member) has been selected as the Chair of the Working Group.

Progress on the harmonisation of procedures has been slow given the large number of donors involved and the reactions from their respective headquarters. However, following the meetings in Copenhagen (October 1997) and Dublin (March 1999), progress is being made in establishing a donor fund with common procedures.¹⁰⁷ The EC has taken a lead role in supporting the use of the fund. At the time of the mission, the World Bank was still to overcome its procedural difficulties in joining the fund.

There is still however little transparency from donors in the use of salary supplements to support Government employees in the sector. This is believed to make the progress of PROAGRI particularly difficult. At the Dublin meeting, all donors (except the World Bank) proposed a pay-reform in the Ministry of Agriculture, as a first step to pay-reforms in other Ministries, but the proposal was in the end not adopted (see Box on p.35).

Health: *some participation in development of the sector-wide approach*

In the past the EC (like other donors) followed a project approach in the health sector. However, the EC approved in 1995 a programme supporting Zambézia consistent with the emerging health sector-wide approach. Serious delays put the impact of this programme in jeopardy, but more recently the EC increased its staff resources in the sector and is contributing to the sector-wide approach (see Box on p.46).

A 1997 assessment argued that the donor working group was "large and heterogeneous, more suitable for discussion than joint action".¹⁰⁸ However, a pool of funds for TA funded by UNDP, Switzerland and the Netherlands, in which the Government carries out recruitment and uses a common salary structure, has been adopted.

Difficulties with salary supplements have also affected the sector-wide approach, and in May 2000 the EC and other donors (though not all donors in the sector) signed a Code of Conduct that commits donors to working together and rules against the payment of salary top-ups (though it would still allow the use of Government officials as short-term consultants on donor projects when on official leave). The EC has also exercised leadership in the phasing out of 30 salary top-ups to Government posts in its health sector programme.

Because of the large proportion of RDP funds earmarked for the education sector, the EC has also now begun to participate in the education donor working group.

¹⁰⁶ Mainly through the use of one consultant for a number of missions a year (2 missions in 1999). But note that this consultant is under contract to the NAO and does not constitute the fully autonomous analysis capacity that the EC would like. The EC is also using a road engineer in ANE (previously DNEP) to support and up-date EC projects.

¹⁰⁷ May 2000 Joint Review however still notes the difficulties in this process.

¹⁰⁸ Pavignani & Durão (1997), p.16.

Health sector-wide approach: milestones and difficulties

A sector approach in the health sector has been developing for a number of years, but progress has been slow and competition between donors is reported to have been high. A 1997 assessment argued that the donor working group was "large and heterogeneous, more suitable for discussion than joint action".¹

Milestones in the development of the sector approach include:

1995	Joint Govt/donor audits of MoH finances
1996	Donor coordination group began
1996	Joint donor pool for drugs and TA (participating donors: Switzerland, Netherlands, Norway, Denmark, Canada)
1998	Govt/donor Health Sector Coordination Committee formed, to begin SWAP process, and MoH established Technical Support Unit for Strategic Planning
June 1999	Kaya Kwanga meeting – joint Govt/donor meeting to build consensus on movement towards SWAP. World Bank takes lead in donor coordination.
May 2000	Code of Conduct signed by most donors, calling for common procedures, national pay rates, transparency, gradual move towards budget support, etc.

A recent WHO report highlighted a number of significant constraints which remain:

- Insufficient consensus within MoH. While senior officials are committed, there may be resistance among middle-ranking civil servants.
- Difficulties in MoH/donor relations. Some resistance from the MoH to the close control required by some donors.
- Limited capacity within MoH, particularly in strategic planning and in managerial capacity at provincial level.
- Disagreements between donors, particularly in assessments of capacity and commitment of MoH.
- Limited coordination of the activities of non-State actors.

Source: WHO (2000)

1. Pavignani & Durão (1997), p.16.

EC shows willingness to coordinate and support other donors' interventions

The EC has received praise for its willingness to support other donors' interventions (including through co-financing), even when it has been close to formulating an intervention on its own. This has happened principally in the private sector and could happen in the justice sector, where the EC has a number of initiatives and is already collaborating closely with Denmark (which has significant expertise in the sector).¹⁰⁹

The EC also receives praise from many donors (particularly Member States) for its consistent role in supporting elections (1994, 1998 and 1999). The EC has been involved in this difficult area in part at the request of a number of other donors. In recent elections, donors worked together in election support both (1) through consultation at Ambassador and Elections Working Group levels and (2) through pooling TA funds through a UNDP Trust Fund in 1998 and through co-financing TA to support STAE in 1999 (the EC providing about half the TA funds).¹¹⁰

¹⁰⁹ Denmark is also financing an *intra muros* TA in the EC Delegation.

¹¹⁰ The EC has also shown flexibility. In a situation where timely delivery was essential, procedural delays resulted in the EC being unable to procure and deliver in time the voter registration materials (€ 1mill). A last-minute arrangement was then agreed with UNDP by which UNDP covered this expense for the EC, and in return the EC provided € 1 mill of funds for the UNDP at a later date, including joint financing of the UNDP Trust Fund for TA.

C. Resources and procedures

Even with recent improvements, the public image of the EC in Mozambique is one of a slow donor with complex procedures and long delays.¹¹¹ This is in part the result of the weakness of Government institutions, but it is also because the EC developed a very dispersed programme, with very limited staff capacity. In this context, EC staff had little time for ensuring the quality of project design and monitoring, for donor coordination, or for focusing on EC priority objectives: poverty reduction, good governance, gender equality and environmental protection. It has been difficult for the EC to gain the confidence of Government and donors. In this context, it is particularly important that the EC improves its capacity to deliver, and it has begun to do so (e.g. with flexible procedures in the implementation of support to the 1999 elections and in the preparation of the Post-Flood Reconstruction Programme in Gaza).

These limitations reflect a number of aspects of the EC's resources and procedures in Mozambique:

- large, unfocused and complex portfolio of projects
- EC staff resources that are over-stretched in most sectors
- time-consuming administrative procedures
- weak learning systems within the Commission.

The effects of constraints in resources and procedures

Serious delays – see Box on p.48 – (**though there have recently been quick EC reactions**) have received most publicity in the roads sector, where concerns have been raised by both the Government and the media. In part the concern by the Government reflects the potential political impact of the delays, given that the roads are in an area where the opposition receives strong electoral support. In addition, the EC's health system rehabilitation in Zambezia has received some public criticism – delays in the programme led to “a serious financing gap in the province”.¹¹² Delays in the disbursement of structural adjustment support (GIP), arising for a variety of reasons, have created difficulties in budget and cash management. Delays in the food security programme are also significant. However, in the recent implementation of the 1999 programme to support elections and the preparation of the Post-Flood Reconstruction Programme in Gaza, the EC has shown that flexibility can result in speedy delivery (see Box on p.53).

¹¹¹ See discussion on p.42.

¹¹² Christian Aid (1999).

Project delays

Roads sector. A number of the EC's road projects have been very delayed. The Emergency Support for Roads Rehabilitation (in the Sofala and Zambezia Provinces) was originally approved in 1993 as a quick-disbursing action within the framework of ROCS1, but operations only began in the second half of 1996.¹ Sofala road rehabilitation then suffered more delays (see Annex 1.1, p.A1). The Nampula-Nacala and Namacurra-Rio Ligonha roads were included in the ROCS appraisal under Phase 1 (1995-96) of the programme, but neither has yet been built. The former has only recently been approved for 8th EDF funding, while the latter has been in preparation for 5 years and its feasibility study was only approved by the EC in January 2000.²

Health sector. Preparation of the Zambézia Rural Health System Rehabilitation programme began in 1992, but the EC only made a commitment in 1995, and the programme only got off the ground in 1998, with provincial-level TA appointed during that year. There were delays also in the provision of budget support.

Structural adjustment. Funds have not been disbursed as initially expected. In part, this is because of the assessment of complex conditionalities (the GIP 3 floating public sector tranche was expected to be disbursed before the end of 1998 and was disbursed in April 2000, and still in February 2000 the Government was considering including this disbursement in its 1999 budget). In other cases, delays have occurred because of poor communications (e.g. in the disbursement of the first tranche of GIP 2 in April 1997, with poor communication on the adoption of the budget framework law). Slow (complex) procedures also affected the recruitment of TA in the Treasury.

Food security. According to a recent food security evaluation, "The efficiency of the 1996 and 1997 facilities was seriously undermined by the slowness of the bureaucratic process", especially at Headquarters (EC 2000b, pp.28, 31). In the case of the 1996 facility, the audit process took 10 months. For the 1997 facility, there was a 20 month gap between approval of the allocation and approval of the Memorandum of Understanding, and a further 5 month delay before the disbursement of funds. Delays were also very serious in the approval of the 1997 Call for Proposals carried out through the Food Security Unit.

1. The difficulty of carrying out surveys of road conditions at the design stage should be noted.

2. The Feasibility Study of Roads EN1 between Namacurra and Rio Ligonha and EN231 between Nampevo and Cuamba was prepared in March 1995 for DNEP.

The EC's difficulties in resources and procedures (detailed below) have also contributed to a number of other programme weakness identified in previous sections of this report, in particular:

- **Weaknesses in project design and implementation.** This has been reflected in a number of areas, e.g. the lack of strategy in the rehabilitation programme (with funding decisions tending to be reactive rather than proactive, see p.25), and the limited coordination with other donors in defining the conditionalities for GIP3 (p.43). In the roads sector (see Box on p.49), weak design of the Beira-Inchope road and the emergency programme in Sofala resulted not only in delays, but also contributed to a poor choice of contractor and supervisor (resulting in excessive costs).¹¹³ More recently, while the design of the Nampula-Nacala road appears to have been initially weak, it was subject to a review (and much criticism) by backstopping advice from EC consultants.
- **Limited attention to donor coordination** in certain sectors (e.g. structural adjustment and health sector, until recently, and the roads sector) (see section 3.B).
- **Limited focus on priority objectives**, in particular gender equality and environmental protection (see section 2.C), and also institutional strengthening (see section 3.A for details).

¹¹³

The supervision team was not part of the construction tender evaluation or the negotiation of the construction contract.

Design weaknesses: road programmes

The EC's earlier road programmes were designed at a time when the EC had limited capacity in the Delegation.

An assessment by an EC road appraisal mission noted that both the Beira-Inchope Road and the Emergency programme in Sofala (but not in Zambézia) suffered from important weaknesses:¹

- in design (particularly because of the time lag between preparation and implementation),
 - in contracting (arguably with weaknesses in selecting contractors, and too lax conditions in enforcing the contract), and
 - in supervision (with inadequate capacity and resources).
- In addition, it was difficult to re-tender where there was a weak contractor or supervisor because of the time involved in following EC procedures.

A key factor was seen to be the fact that the supervision team was not part of the construction tender evaluation or the negotiation of the construction contract.

These weaknesses are reported to have resulted in poor performance, with long delays and excessive cost over-runs (70% higher than estimates in Sofala). However, the assessment found better performance in the management of the emergency operations in Zambézia.

It is expected that the TA for financial management in ANE will make clarifications and resolve pending issues in project accounts (see also issues in ROCS and ANE, p.40).

In the recent Nampula-Nacala road programme, the EC appears to be learning from previous experience, e.g. a supervision team to be part of construction tenders and negotiations. However the detailed design (1998) was subject to significant criticism by backstopping advice by consultants from the EC, which argued that the analysis was skewed in favour of engineering analysis, that it failed to distinguish financial and economic analysis, and that no use was made of EC manuals.

1. EC (1999b). See also Annex 1.1 (p.A1).

The EC's constraints in resources and procedures

Large, complex EC programme with limited focus, but some improvements

The current Head of Delegation received a complex programme with a very large number of small projects, that was in part a result of the multiplicity of instruments used,¹¹⁴ but also reflected the previous management approach. In fact, the area of concentration in the NIP (see chapter 1.B) was so broadly defined that it allowed interventions in almost any area, while geographical dispersion persisted too. On arrival, the new Head of Delegation (in consultation with the NAO) "rationalised" the project portfolio. However, this was only an initial step and the programme is still complex, with limited focus.

In the EC's current programme, projects are active or being prepared in the following areas:

- roads
- health
- education (within the RDP)
- private sector (although joint financing)
- agriculture
- fisheries

¹¹⁴ NIP, Structural Adjustment Facility, Article 254 and 255 funds, Food Security budget-lines, two rehabilitation budget-lines, other budget-lines and regional funds.

- water
- elections
- justice
- work with NGOs.

This is a burden on EC staff and leads to a situation where the EC engages in administration rather than strategic management. However, in the context of Cotonou and the simplification of some of the EC aid instruments, there is greater scope to focus the programme.

Some progress towards greater programme focus

The rehabilitation programme, with its wide range of EC aid instruments, contributed to a lack of overall strategy and coordination with the Government (which had particularly weak capacity).¹¹⁵

A more focused strategy should also be possible given the ending of the rehabilitation programme (and the rationalisation of some budget-lines¹¹⁶), and given that collaboration with NGOs is beginning to be rationalised (mainly through the RDP¹¹⁷ and NGO interventions through the Food Security Unit).

..... but some other factors have contributed to greater dispersion. At the same time, the dispersion of the portfolio (and consequently the workload of EC staff) is being increased by a number of factors:

- *Wider focus on institutional issues.* The need to give greater focus to budget, financial control and public sector reform in structural adjustment support programmes places additional demands on staff. Similarly, the need to participate in the sector-wide approaches in the health, agriculture (with a very significant contribution by FSU) and education sectors, increases demands on staff time. The EC is also beginning to increase its monitoring of institutional issues in the road sector.
- *Demanding support for elections (1998 and 1999).* Support for elections has made particularly high demands on staff time. For a large part of 1999 the EC's programme of support for the 1999 general elections required the full-time attention of one member of the Delegation staff as well as careful follow-up by the Head of Delegation.
- *Food Security support for reform of the Ministry of Industry and Trade (MICOM).* In addition to supporting PROAGRI, the Food Security budget-line is also supporting the reform of MICOM.¹¹⁸ This is a particularly difficult task.
- *RDP includes a significant education component.* While in the past the EC had limited direct involvement in the education sector, it has now begun to follow discussions on the sector-wide approach (through the NGO Unit). The RDP allocates as much as 55% of funds to the education sector.
- *Involvement in the water sector.* The EC recently became active in the water sector for the first time. ZAMWAT was recently approved (€ 11.6 million). The EC is also

¹¹⁵ The rehabilitation programme was problematic because a range of instruments were used for very similar purposes, with each instrument having its own procedural rules (EC 1999g, p.25).

¹¹⁶ The complexity of the portfolio has been reduced through changes in the aid instruments used: Article 254 and 255 of the Lomé Convention have ceased to apply, and food aid (which ended in 1996) has been replaced by the Food Security budget-line.

¹¹⁷ However, note that RDP still consists of a large number of projects (about 20 different interventions). A Micro-projects programme is also being used to support NGOs.

¹¹⁸ With the FAO, the EC has been providing TA to the National Directorate of Internal Trade (DNCI) supporting the development of the Government's Trade and Policy Strategy and institutional restructuring.

preparing a second major water sector intervention, the Beira Urban Water Supply and Sanitation Project.

EC staff resources are over-stretched in most sectors

The current Head of Delegation has emphasised the importance of matching staff capacity to any new commitments. This concern has already contributed to the fact that donors and the Government perceive a more professional delivery by the Delegation. The matching of capacity to commitments is challenging given that the Delegation has only 7 European professional staff to manage a large programme (NIP of € 214.5 million) and given that there are still relatively difficult relations with the NAO, while support missions of EC staff from headquarters appear to be limited.¹¹⁹

The Delegation has been able to enhance its capacity with the use of technical assistants from the Food Security Unit (4 international and 1 local) and the NGO Unit. These are technical units consisting of staff on contracts who technically are not part of the Delegation but respond to Headquarters, though in practice the EC has incorporated them fully in the work of the Delegation. This has had a very positive impact on the capacity of the EC (particularly for PROAGRI, where there have been sufficient resources for the EC to carry out non-project related studies).

However, in the context of the on-going restructuring of the Commission, a clearer distinction between policy and implementation functions could be found (see Box). The question of cost-effectiveness may also need to be considered.¹²⁰ A further integration of the support channelled through NGOs by the FSU and the NGO Unit might also be considered, although there have been attempts to improve coordination between these units (e.g. through sharing information banks, and discussions on the recent framework for support of NGOs).¹²¹

FSU and NGO Unit

The existence of the FSU and the NGO Unit has allowed a considerable volume of project administration (in particular of NGO projects) to be carried out outside the Delegation.

However, the staff in the two units are not permanent EC staff – they are TAs hired by the EC at Headquarters (though in practice answerable to the Delegation) – and there may need to be some reconsideration of the division of labour. While it is appropriate for TAs to give policy advice, responsibility for policy decisions must lie with permanent staff. And while both permanent staff and TAs have roles in implementation, the focus of permanent staff should be on supervision while that of TAs should be on implementation itself.

Both FSU and NGO units manage NGO projects. Their rationale is that the FSU addresses the 'consumption' aspects of poverty (e.g. agriculture) while the NGO Unit addresses 'non-consumption' aspects (health, education, roads, etc.) The NGO Unit (which has its origins in the Rehabilitation Cell which managed the rehabilitation programme) is well-staffed, but the cross-sectoral nature of its portfolio limits its focus.

There may be benefits from integrating staff working with NGOs (or, more generally, civil society) under a common strategy.

EC faced difficulties in health sector programme but has increased its staff capacity

Staff capacity has been increased in the health sector (one Delegation adviser), following weak capacity in the sector. This increased capacity is allowing participation in policy discussions.

¹¹⁹ For example, the last visit made by the Desk Officer was in June 1999. .

¹²⁰ The FSU has managed budget-line programmes of € 43.6 million since 1996.

¹²¹ Both units are housed in the same offices.

Only beginning to reinforce capacity in roads and structural adjustment

By contrast, in the roads sector the EC has limited capacity for project monitoring, financial supervision, for engaging actively in donor coordination or sectoral policy discussions. The use of a consultant for missions from Europe¹²² and a TA for financial management have recently improved EC capacity somewhat. Nevertheless, the Delegation is conscious that further involvement in the road sector requires additional staff resources. Similarly, the weakness in structural adjustment programmes may be attributed to insufficient EC capacity in this area.

Reinforcement of financial capacity, but more capacity needed

A 1998 mission from DG Financial Control found inadequacies in financial management, and DG Development and the Delegation proposed a Financial Management Cell in the Delegation. This was initially rejected by DG External Relations because of budget limitations. However, a local EDF accountant has now been appointed. The NAO also has difficulties in accepting Delegation requests for the use of EDF funds for TA to support the Delegation.

The Head of Delegation is conscious of the importance of staff capacity for good performance and has accepted an offer of support from Denmark. A staff member, previously a Young Expert within the Delegation and who required an extension of his stay in order to close the Delegation's project of support to the 1999 elections, is currently financed by Denmark to be an *intra muros* TA for the EC.

Time-consuming administrative procedures

Management of the EC portfolio is particularly difficult because of the EC's time-consuming administrative procedures. In interviews with evaluators, it was noted that the problem of procedural delays has become even larger with the separation of the Common Service Relex (SCR) from DG Development at Headquarters. The EC's general weaknesses in procedures are well known,¹²³ and changes in these are required if the EC is to implement an effective country strategy.

The complexity of procedures is compounded by the pressures for EC staff to commit and disburse funds quickly. This leads to the identification of interventions with a high disbursement potential rather than those that might contribute more to institutional strengthening. Road sector programmes, for example, have allowed the disbursement of large volumes of funds (though slowly, because of delays), while institutional strengthening in the sector has been limited.

The use of different instruments and procedures also over-stretches the capacity of EC staff. This is also seen in the fact that the coordination between procedures for budget support under the structural adjustment support and the food security budget-line are still insufficiently coordinated.

Diffuse accountability makes coordination with Government and with other donors more difficult, and contributes to poor decisions. In the road sector, ANE reported that it is difficult to coordinate with the EC because it is never clear who has the full responsibility to take decisions (unlike with World Bank task managers). Similarly, a recent review by EC consultants noted that delays and cost over-runs are in part explained by weakness in the selection of contractors and supervisors and by diffuse accountability (see Annex 1.1, p.A1).

¹²² But note that the consultant is under contract to the NAO and does not constitute the fully autonomous analysis capacity that the EC would like.

¹²³ See EC (1998c).

Moreover, in some cases there has in practice been uncertainty as to who within the EC should decide conditions and assess EC programmes. For example, in the case of structural adjustment support, there were intense exchanges between the relevant unit at Headquarters and the Delegation. This affected the discussion on the choice of conditionality for GIP 3 (e.g. November 1997) as well as the decisions to release disbursements. As in many other countries, Headquarters focused particularly on the need for greater attention to financial controls and progress in public administration reform, while the Delegation emphasised the importance of the release of funds for the economy. These discussions can become very time-consuming and may be a source of confusion for the Government counterpart.

A number of evaluations have also pointed out the difficulties in implementation created by the limited decision-making power of the Delegation (e.g. in the rehabilitation programme).

EC has recently shown flexibility in procedures

However, the EC has recently shown that some flexibility in procedures can allow for speedy preparation and implementation of projects (see Box).

EC speeding up procedures

1999 elections. A number of derogations on tender procedures, including rules of origin, were agreed. In particular, for the TA funded through the UNDP-managed joint donor fund, procedures were harmonised with UNDP. In addition, flexibility was allowed in the allocation of funds to different components within the work programme. It was agreed (exceptionally) that changes could be made by letters of agreement between the Delegation and the Government without authorisation from Headquarters. In the event, as a result of the speed with which the Financing Proposal had to be prepared (only 5 to 6 weeks) such changes were made on five occasions, demonstrating the value of this provision.

The programme delivered on time. However, its financial management has been difficult (particularly given weaknesses at provincial level).

Flood response. Accelerated procedures are being used in the Post-Flood Reconstruction Programme in Gaza Province. This is important in a programme of this nature, given the need for speed to ensure that flood protection infrastructure is repaired in time for the next rainy season.

Weak learning systems within the Commission

Monitoring has tended to focus on 'physical' results rather than impact. While there have been many evaluations of the rehabilitation programme, several major interventions have not been evaluated. Audits are not yet carried out systematically.

Weakness in project monitoring

There have been weaknesses in project monitoring. There is a tendency for log-frame indicators to focus on immediate 'physical' project results, rather than on impact (see Box on p.54 for an example from private sector development). In structural adjustment support, given the lack of transparency in the Mozambican budget, the EC's monitoring of expenditure execution data was always delayed and of low reliability. What is more, it focused only on inputs to the budget and not on outputs and even less on outcomes.¹²⁴ More reliable budget

¹²⁴

The problem of focusing on inputs rather than outputs or outcomes is revealed in expenditure-tracking surveys carried out in Uganda (see World Bank, 1999e).

Comparing monitoring of private sector development

While the EC is providing an input into the World Bank's PoDe programme, there is a contrast between the performance indicators outlined in the EC's financing agreement and those highlighted in the World Bank's project document on PoDe.

While the EC's remarks on the complexity of tracking the impact of training are sensible, its monitoring indicators will be largely operational, e.g. numbers of training courses and participants. Money spent on the competitiveness grand fund will be more susceptible to impact assessment, given the insistence that recipient companies provide information on sales at suitable periods after the support.

By contrast, the World Bank expects that project benefits will be measured through assessment of: demand for participating firms' products, impact of training and capacity-building services on enterprise productivity, and services delivered by participating public and private agencies.

In summary, the World Bank appears to be committed to fuller monitoring of this project, which may in turn reflect greater capacity for monitoring and evaluation.

execution data has recently become available, but it is not disaggregated in a way that would be useful to monitor the impact on poverty, e.g. with no distinction between primary education and secondary education.

Monitoring of NGO projects appears to have been particularly weak in the past. The evaluation of the rehabilitation programme reported that in the early period of the programme there was "almost no monitoring and evaluation" and that even though monitoring did subsequently improve it remained unsystematic.¹²⁵ Improvements have been made, e.g. through the placing of TA in provinces to support the NGO Unit and the FSU, through making project cycle management mandatory for NGO projects, and through the introduction in 1997 of a database of the status of all on-going NGO projects. The EC is working towards the goal of visiting all NGO projects at least once per year. In addition, some attempt to ensure that NGO projects learn from each other is proposed by the FSU, which is intending to carry out regular meetings of NGOs selected in the 1999 Call for Proposals (with meetings also open to NGO agriculture projects funded through other sources) to share experiences and discuss issues of common interest.¹²⁶

Evaluations have not been carried out of several major EC programmes (see Box on p.55)

There have been no independent evaluations either of structural adjustment support programmes or of road sector interventions. In addition, the recent Food Security budget-line evaluation had limited staff resources (only part of a global evaluation). Moreover, the EC would benefit from a wider distribution of its evaluations (e.g. through a Delegation or donor-wide web-site).

...but the EC has evaluated the rehabilitation programme many times, and learnt lessons. The rehabilitation programme has been evaluated many times, and this has already benefited both the preparation of the Rural Development Programme (e.g. the linking of projects to the planning and budgeting of local authorities) and the preparation of a new draft framework for collaboration with NGOs. In this area, EC staff have shown a positive willingness to learn from previous experiences.

While the roads programme has not been evaluated, the problems found by EC consultants on a number of major roads¹²⁷ have already been of benefit in the preparation of the Nampula-Nacala Road Rehabilitation programme.

¹²⁵ EC (1999g), pp.51-53.

¹²⁶ EC Food Security Unit (2000b), pp.2-3.

¹²⁷ EC (1999b).

Evaluations of EC projects and programmes in Mozambique

The following evaluations have been carried out of EC projects and programmes in Mozambique (not regional) during the period covered by the 7th and 8th EDF:¹

Rehabilitation programme

- Assistance aux Programmes de Réhabilitation en Afrique Australe, Mission au Mozambique, May 1994 (ref. 951001)
- Evaluation of Actions Financed under Article 255, VII EDF – Assistance to Refugees, Returnees and Displaced Persons – Mozambique Country Case Study, July 1997 (ref.951178)
- Assistance to Rehabilitation Programmes in Southern Africa – Evaluation of the Implementation of the Budget-Lines B7-3210 and B7-6410, September 1998 (ref. 951346)
- Evaluation of the Actions of Handicap International in Mozambique under the Financing of the EC, January 1999 (ref. 951442)
- Evaluation of the Rehabilitation Programme in Mozambique, July 1999 (ref. 951473)

Food aid / food security

- EU Programme Food Aid, Country Report: Mozambique, October 1996 (ref. 951105)
- Evaluation of the EC Food Security Programme in Mozambique, first draft, May 2000
- Evaluation of NGO livestock projects, 2000

Governance and civil society

- AWEPA – Evaluation of the Actions Promoted and Implemented by AWEPA Financed by the European Commission, November 1998 (ref. 951366)
- Appraisal of the EDF Support to the 1999 General Elections and Evaluation of the 1998 Municipal Evaluation [*sic*] in Mozambique, February 1999 (ref. 951459)

1. A short appraisal of road sector interventions has also been carried out (EC, 1999b).

Source: Evaluation Unit (SCR) and EC FSU.

Audits are not yet carried out systematically

Systematic audits are particularly important in the context of very weak Government financial controls (e.g. in the past a number of audits have found problems: SIPs, GIPs and the 1996 Food Security Foreign Facility).¹²⁸ However, systematic audits are not yet carried out systematically. There is also a major initiative of donors to carry out studies of Government financial controls (e.g. in the health sector, in agriculture, in MPF).

¹²⁸

Audits of the STD/HIV programme and Micro-Projects have also been carried out.

D. Explaining EC performance, by sector

The following table summarises the discussion in Chapters 2 and 3 and aims to present schematically (but tentatively) the EC's performance (or likely performance) in its sectors of intervention in Mozambique.

Sector and instruments / criterion ¹ / criterion ²	Relevance ³	Prior successful experience in the country ⁴	Focus within sector ⁵	EC relations with institutions – Govt & civil society	Likelihood of donor complementarity	Likely impact ⁶
Agriculture	+	+	+	+	+	+/-
Governance, civil society *	+	+/-	+/-	+/-	+/-	+/-
Structural adjustment	+	-	+/-	-	-	+/-
Health, population	+	-	+/-	+/-	+/-	+/-
Transport & communications	+	-	+	-	+/-	-
Rural dev. (multi-sector)	+	+/-	-	+/-	+/-	+/-
Water supply	+	-	+/-	+/-	+/-	-
Education	+	-	-	+/-	-	-
Banking, bus. ss. (private sector)	+/-	-	+		+	+/-
Fisheries	+/-	-	n.a	-	n.a	-

1. Sectoral classification follows the one used in *The European Community External Cooperation Programmes: Policies, Management and Distribution*, EC/ODI, 1999.

2. Ratings range from + (high) to - (low).

3. Relevance to country analysis (see ch.1), on the basis of Maastricht priority objectives (good governance, poverty reduction, gender equality and environmental protection).

4. History of prior EC involvement and success of prior EC projects in the sector (in Mozambique).

5. Focus of EC interventions within the sector (including focus of components within single programmes).

6. Preliminary assessment based on quality of project preparation and mid-term or final evaluations when available.

* Note: This 'sector' combines interventions in support of elections, where the EC's performance has been relatively strong, with support for civil society, where the EC's performance has been poor.

4

Recommendations

These recommendations are intended to assist in the preparation of the EC's Country Support Strategy for Mozambique. They take into account the Cotonou Agreement and its emphasis on good governance, on a new partnership that embodies the participation of civil society, and on poverty reduction as the central objective of the new partnership. The recommendations also take into account the Commission's guidelines on the 9th EDF programming process.

Ensuring relevance of the strategy

1. **Objectives: good governance and the reduction of poverty.** Country analysis suggests that the EC strategy should focus on two principal objectives:
 - *Firstly:* good governance, including democratisation and the rule of law.
 - *Secondly:* the reduction of poverty.
2. *The strategy should include a 'base case' and a 'high case' scenario in the financial allocation.* These scenarios should be linked to monitorable benchmarks to assess Government progress with regard to the two principal objectives. Weak performance on these indicators should result in a greater emphasis on support to civil society and local governments.¹²⁹ Key benchmarks should be agreed jointly by donors, the Government and civil society, and could include:¹³⁰
 - the accountability of the executive, specific progress in public sector reform, and a code of good practice for fiscal transparency.
 - the Government's progress in reducing poverty (e.g. improvements in public service delivery, as monitored by expenditure tracking studies¹³¹).
3. *Take PARPA into account, but critically.* The EC's strategy should take into account the initial work under the PARPA, but this has to be done critically given Government capacity constraints (in public sector reform and in the weakness of budget planning and accountability).
4. *The EC's strategy should include systematic consultation with different elements of civil society and political parties.* This should be part of a wider effort to support political dialogue, conflict-resolution and the building of a consensual national development plan. Civil society and the private sector should not only contribute to the preparation of the strategy (particularly on governance and rule of law issues) but should also become part of a decentralised system to monitor the implementation of the aid programme.

¹²⁹ This is consistent with the focus on good governance in the Cotonou Agreement. However, an important component of the EC programme should be support of civil society (and local government as this develops) *even if* Government performance is relatively strong.

¹³⁰ The 'high case' scenario should also 'cover unforeseen needs such as emergency assistance, contributions to internationally agreed debt relief initiatives and support to mitigate adverse effects of instability in export earnings' (as per programming instructions).

¹³¹ See World Bank (1999e).

Increasing the focus of EC aid

5. **The EC aid programme should be focused on 2-3 narrowly defined areas, co-financing other donors' interventions in other areas.** Staff resources are needed to monitor public sector and budgetary process reforms, and for consultation with civil society and other donors. There is a need to concentrate scarce staff resources in a few interlinked areas of intervention (with possible geographical concentration). The EC should avoid any interventions that fall outside these areas (unless co-financing other donors' interventions).
6. **Suggested principal areas of intervention:**
 - **Budget support**, linking *structural adjustment support* with support to the sector-wide approaches in the *agriculture* and *health* sectors. The focus should be placed on addressing the binding constraints on development in Mozambique (i.e. public sector and public expenditure management reforms) and on improved delivery in agriculture and health.
 - **Roads**, given the potential impact of roads on poverty and the involvement of the EC in this sector (but taking into account the serious problems experienced in the past).
 - **Governance and civil society.** The EC should move to a more wide-reaching support for governance and civil society. This support may be across many sectors, but care should be taken to minimise the use of staff resources (including working with other donors in support for elections, and only working in the justice sector through co-financing).
7. *Re-consider further interventions in water, education, fisheries and private sector development.* The EC has not yet had a long involvement in these sectors and may face constraints in actively participating in sector-wide approaches in these sectors. The private sector should continue to be supported only by joint interventions. However, note that in practice, EC budget support would continue indirectly to provide support for all these sectors

Budget support and support to agriculture and health

8. **EC structural adjustment support should strictly follow the approach and procedures proposed by the group of donors working on the harmonisation of budget support.** The EC will then be better positioned to monitor and support public sector reform and public expenditure management (including the development of the poverty reduction strategy and improvements in financial management). Donors and the Government can also use expenditure tracking surveys (and civil society participation) to monitor progress in the effectiveness of social delivery aspects of the PARPA. These areas require the joint work of key donors.
9. **EC budget support to public administration and public expenditure reforms should be linked to sector-wide approaches in agriculture (PROAGRI) and health.** More systematic EC support for general Government reforms should allow better links with sector reforms where the EC is already playing a strong role (e.g. in PROAGRI). The EC should continue to support sector-wide approaches, but only in those areas where the Government has some capacity and the EC has sectoral experience and capacity (e.g. agriculture and perhaps the health sector). The EC should continuously monitor Government reform commitment in these sectors.

10. *EC budget support (together with other donors) should include simple impact indicators and surveys.* This requires a shift from monitoring ‘physical’ project results to using outcome/impact indicators, and it also requires the use of baseline benchmarks (as well as service delivery surveys and expenditure tracking surveys,¹³² to monitor progress).
11. **Reforms should target existing Government structures, should phase-out salary supplements and minimise the use of international consultants.** The EC (jointly with other donors) should phase out salary supplements (top-ups) to Government officials and should support a transparent package of incentives for staff retention. For core Government activities, the EC should also avoid parallel Government structures (Project Management Units) and the use of too many international consultants (who should be used strictly for capacity-building). The success of institutional reforms depends on building internal consensus for reform rather than creating temporary ‘islands of excellence’.
12. *EC budget support to PROAGRI (Food Security budget-line) should be better coordinated with EC structural adjustment budget support.* This would be beneficial in linking overall public sector reform and budgetary reform to agriculture sector reform and also to the poverty reduction action plan. This is particularly important because the “project mentality” which is slowing PROAGRI down can only be tackled through public sector (and pay) reform. In addition, financial management reforms in the Ministry of Agriculture (supported by the EC) need to be part of the reform of financial management at the centre (Ministry of Planning and Finance) and need to be monitored by all donors. Closer integration should involve working towards common procedures and common conditionalities.
13. *Links should also be increased between EC structural adjustment support and the sector-wide approach in the health sector.* This should help with the slow implementation of the Zambézia programme and should also increase integration of the health sector-wide approach with the overall public sector, budget and financial reform.

Road sector

14. *The road sector could continue as a major focus, even though implementation has been weak, but the EC needs to further strengthen its capacity for implementation and focus on institutional aspects* (see Recommendation 15). Better transport infrastructure is a key priority in Mozambique and requires a large volume of funds, which only a donor such as the EC can provide. However, roads need to be built on time and within cost limits, and they need to be maintained (sustainability). Improved supervision capacity, enhanced financial management controls, and better coordination between EC Headquarters and the Delegation are needed.
15. **The EC should reinforce its focus (and capacity) on the institutional aspects of the road sector. Future interventions should be conditional on clear progress in this area.** The EC has so far relied on the World Bank to enhance institutional capacity in the road sector. However, recent analysis commissioned by the EC concludes that autonomy for the road fund and the roads authority (ANE) have not yet been achieved. This has affected the impact of EC interventions. The EC (together with key donors) should carry out further analysis, should work to strengthen road sector institutions (including capacity-building in the provinces), monitoring and supporting developments in ANE, and ensuring provisions for road maintenance, and should make future interventions conditional on clear progress in this area.
16. *Coordination with the lead donor (the World Bank) should be increased as a matter of urgency.* An increased EC capacity for addressing institutional issues would allow the

¹³²

On these, see World Bank (1999e).

EC to become a better informed donor (having always been a large donor) and gain some influence. While the World Bank is expected to continue to be the lead donor in the sector, it is important that the EC finds a systematic way to coordinate sector strategies with the World Bank at a high level (e.g. through periodic video-link conferences between the headquarters of the two organisations).

17. *The EC should focus more on the poverty, HIV/AIDS, and environmental impact in the roads sector.* ANE and the World Bank have recently begun initiatives in this area. The EC should follow suit, and should possibly re-examine what types of road it is planning to build and what technologies are appropriate. Design criteria should be reviewed, and should possibly take into account the need to reflect variations in local conditions across the country. The experience of Member States should be considered, including the possibility of using local contractors and labour-intensive technologies.

Governance and civil society

18. **Design and implement a strategy to strengthen civil society, as an indirect means of improving governance.** The EC has given support through international NGOs, but the challenge is to use all the instruments available to improve the support to: community-based organisations, advocacy groups, governance ‘watchdogs’ (human rights, corruption), local NGOs and local governments.¹³³ Support to service delivery NGOs should be preceded by an assessment of their absorption capacity and should, where possible, be coordinated with Government. International NGOs should be encouraged to help build the capacity of local NGOs.
19. *EC support to civil society may require the rationalisation of staff resources and should be done jointly with other donors.* The resources available in the NGO Unit (currently assisting in the management of the RDP) and in the NGO support section of the FSU may both be used as part of a wider EC strategy for supporting civil society (see recommendation above). The Delegation should develop a capacity to analyse developments in civil society (and decentralisation), including joint studies with other donors.
20. *The EC should channel support to civil society (advocacy groups, service delivery NGOs, etc.) through intermediary funding organisations.* These intermediaries would operate independently but would use funding criteria agreed by the EC, other donors and civil society (see Box on p.61), and their application of these funding criteria would be monitored. The process of selecting funding intermediaries would need to be very transparent. Using funding intermediaries would allow the EC to support even small organisations across many sectors while simplifying its own administrative management.
21. *The EC should give careful attention to the implementation of the RDP, given that its success depends on the details of implementation.* The EC should in particular ensure the capacity of the Steering Committee, the technical quality of the PMU, and some degree of accountability (to local communities) for the PMU. Transparency in the RDP Call for Proposals is also essential.
22. *Direct support for governance: The EC should consider further support to elections (jointly with other donors) but focusing on institutional sustainability. Support to the Justice sector should be in the form of co-financing.* Other donors are very appreciative of the EC’s work over the last 6 years in this very difficult (but priority) area. However, the EC should act together with other key donors, in providing long-term support to a restructured STAE. The justice sector is also important for governance, but, given EC

¹³³

This strategy, of course, should be consistent with or integrated with the poverty eradication action plan (PARPA) as well as sector programmes (e.g. PROAGRI).

Intermediary funding organisations

Where an intermediary funding organisation is used, civil society organisations apply for funds to the intermediary, which then selects which organisations to fund on the basis of clear criteria. The intermediary then disburses funds, and monitors and audits the execution of projects. The intermediary may be a pre-existing organisation, or it may be established specifically for this task by the EC (and other donors). The EC (preferably jointly with other donors, and in close consultation with beneficiaries) should be involved in the selection/design of the intermediary, in selecting appropriate funding criteria, and in monitoring and auditing the performance of the intermediary.

Channelling funds through an intermediary has a number of advantages:

- It allows the EC to support many small interventions, possibly across a large number of sectors, while itself only preparing and implementing a small number of projects. Provided the intermediary has operational independence from the EC, this keeps the administrative burden low.
- It may allow greater transparency in funding criteria, if the intermediary is required to publish and follow closely its criteria. Joint donor support through a single intermediary is particularly beneficial to the transparency of funding criteria (it also contributes to the harmonisation of procedures).

The EC established the European Union Foundation for Human Rights in South Africa with many of the features of this system. The procedural requirements of such an organisation might be different in Mozambique given the need to adhere to EDF rules.

Source: EC (1999f).

commitments in other sectors, it is recommended that the EC should only co-finance other donors' interventions in this sector (e.g. Denmark).

Improving aid coordination practices

23. *The EC should continue its work of trying to persuade Government and donors to be **transparent in the salary supplements** paid by donors to Government officials. These supplements should be phased out, and a pay reform should be implemented.* This is a very difficult issue, but the success of sector-wide approaches (and more generally of support for governance and ownership) depends on it. All donors should be transparent in their use of salary supplements. Strict implementation of Codes of Conduct among donors would be a first step.
24. *The EC and other donors should jointly support Government budget planning (at central and sectoral level) and the Government's capacity for donor coordination. Donors should stop supporting the Government separately.* Support to budget planning is the most effective way to build Government capacity to lead coordination efforts with a large number of donors. If successful, PARPA should facilitate coordination among donors strategies. Donors could reduce the burden they impose on Government if in general they approach the Government as a group of donors, e.g. on a sectoral basis.
25. **The EC, together with key donors, should support reform of the Government's aid coordination mechanism (including the NAO office).** Ideally, external assistance by all donors should be coordinated by a single Government unit with a direct link to budget planning and implementation, e.g. within the Ministry of Planning and Finance.¹³⁴ This reform should be linked to the improvement of the budget process.

¹³⁴

As in South Africa, where the NAO is part of the directorate for International Development Cooperation within the Ministry of Finance.

26. *The EC is encouraged to work together with Sweden on its new country support strategy.* The EC's country analysis should benefit from the analysis of other donors (e.g. the World Bank's *Country Assistance Strategy* and the UNDP's work on its Common Country Assessment). Since Sweden and the EC are currently at a similar stage in the strategy preparation process, it is possible that their programming exercises could be carried out in collaboration. This should reinforce the complementarity of their strategies and would require an assessment of donor programmes in different areas.
27. *The EC should work towards the rationalisation of donor working groups, and should only lead groups in which it has sufficient institutional capacity.* There is a multiplicity of donor working groups and they vary in quality. The use of web-sites for the more efficient exchange of information should be encouraged (starting from the EU donor database). The EC should further support the work of the donors who are working on a common approach to budget support, and should continue its chairmanship of the PROAGRI donor group. The EC should reconsider its chairmanship of the Public Sector donor group or other donor groups in which it does not have sufficient institutional capacity.
28. *The EC's next structural adjustment support operation should strictly follow the common donor approach suggested by donors working on budget support.* This would not only ensure a better focus on public sector and budget reform and on financial controls, but would also avoid the coordination difficulties experienced with GIP3.
29. **The EC should only provide institutional support to Government departments as part of joint pools for technical assistance.** TA should not be linked to individual donors. Instead, donors should jointly provide comprehensive institutional support (as proposed by the group of donors providing budget support in response to requests from the Ministry of Planning and Finance, or as being implemented in the health sector).
30. *The EC should continue its favourable stance on co-financing interventions of other donors, particularly outside its areas of concentration.* This will allow the EC to support sectors in which it has limited capacity (e.g. private sector development, led by the World Bank).¹³⁵ It can also enhance support in other areas (e.g. co-financing the funding of civil society organisations through a common intermediary). Co-financing in the justice sector and elections could be considered.
31. *The EC should support joint macroeconomic monitoring and joint analysis of developments of civil society. Systematic consultation on project preparation and evaluations should be piloted.*

Using EC resources and procedures more efficiently

The recommendations in this report can only be implemented in the context of successful internal restructuring within the EC. In particular, while it is important that the EC should limit procedural delays as much as possible, at the same time it is important that the EC does not prioritise speed of commitment and disbursement above the quality and sustainability of EC interventions.

32. *The EC should clarify the role of the FSU and NGO Unit vis-à-vis the Delegation and Headquarters, in the context of on-going restructuring.* These units, staffed by technical assistants, enhance the EC's in-country capacity, but it is important (in the current context) that there is clarity in the allocation of policy and implementation functions. While it is appropriate for TAs to give policy advice, responsibility for policy decisions

¹³⁵

Co-financing is encouraged within the framework of the Cotonou Agreement (Article 65).

must lie with permanent staff. And while both permanent staff and TAs have roles in implementation, the focus of permanent staff should be on supervision while that of TAs should be on implementation itself. A cost-effectiveness analysis of these units is also required.

33. *The EC is commended and encouraged to continue its recent efforts to accelerate the delivery of its support to Mozambique.* The EC has had an image of a very slow donor with little capacity. Its support to the 1999 elections and to post-flood rehabilitation show that the EC can use procedures flexibly in order to speed up delivery. However, the quality and sustainability of interventions should not be compromised.
34. *The EC would benefit from a simplification of procedures:* for example through de-concentration, systematic ex post audits, service delivery standards, and facilitating the recruitment of consultants.
 - Given the work-pressures on Delegation staff in Mozambique, initially only a cautious deconcentration of authority from Headquarters to the Delegation is recommended.¹³⁶
 - *Rigorous and systematic ex post audits should be carried out on all projects* (by accredited international audit companies, when necessary), and should replace existing inefficient ex ante controls on projects.
 - Simpler and more flexible procedures are particularly needed to ensure timely recruitment and quality of international consultants, to allow more flexibility in the duration of projects, and to allow support for civil society organisations through independent intermediaries.
 - Service standards to EC aid recipients should be developed and communicated (e.g. a limit of 10 days for approval of tender documents).
35. *The EC should reinforce specialist skills in Delegations and provide Delegations with rapid funds to support their own technical capacity (including support not linked to interventions).* Reinforced skills in local government, good governance,¹³⁷ poverty and the environment are particularly important. To facilitate this, areas of interventions should be concentrated and the projects for which an individual staff member is responsible should all be related, and within his/her area of expertise.
36. *The EC should appoint a programme administrator in the Delegation to focus on financial management,* with responsibility for monitoring (including performance) and the timeliness and quality of financial and/or operational audits, mid-term reviews and final evaluations.
37. *The EC should strengthen its capacity by promoting the pooling of technical staff with Member States and other donors.* This could also facilitate the mainstreaming of gender and environment analysis in EC interventions, which is currently weak.
38. *The Delegation should introduce an informal quality support group.* This group could include not only Delegation staff, but possibly also experts from outside the EC (including other donors, see recommendation 37).

¹³⁶ See EC (1999f). Where de-concentration is pursued, Headquarters should define project norms, certify accounting, procurement and disbursement systems, and carry out annual inspections of the Delegation, while deconcentrating all decentralised functions. The outsourcing of administrative procedures could also be pursued by both the Delegation and Government/implementing agencies.

¹³⁷ Including the budget process and civil society support.

Learning processes within the Commission

39. *Jointly with other donors, the EC should carry out analytical work which is not directly linked to the preparation of new projects, in areas such as:*
- institutional assessments of political, economic and social institutions (including developments among non-state actors)
 - efforts to build consensus around a national development agenda
 - the process of public sector and budget reform
 - public expenditure tracking and delivery surveys in key social sectors
 - the development of performance/outcome monitoring indicators.
40. **The EC should reinforce independent monitoring and evaluation, and carry out systematic audits of its interventions. Civil society and other donors should contribute to these exercises.** Interventions should be monitored on an on-going basis and mid-term reviews and *independent* final evaluations should be carried out *systematically* and on time, *even when projects are delayed*. Ex-post audits of all interventions are also very important in Mozambique. In particular, structural adjustment support and road sector interventions would benefit from evaluations and audits. The EC would also benefit from a wider distribution of its evaluations (e.g. through a Delegation or donor-wide web-site).

Annex 1

Specific programme evaluations and official documents

The following evaluations, official documents, and initial assessments are presented in this annex:

- 1.1 Appraisal of EC support to the road sector page A1
- 1.2 Evaluations of the 'rehabilitation programme' page A2
 - Evaluation of rehabilitation budget-lines (1998)
 - Evaluation of Article 255
 - Evaluation of rehabilitation budget-line (1994)
 - Evaluation of Handicap International
 - Overall evaluation of the 'rehabilitation programme'
- 1.3 Programme Food Aid evaluation page A4
- 1.4 Food Security evaluation page A5
- 1.5 Rural Development Programme: *initial assessment* page A6
- 1.6 EC Discussion Paper on cooperation with NGOs page A7
- 1.7 Response to the floods: *initial assessment* page A8

1.1 Appraisal of EC support to the road sector

No independent external evaluation has been carried out of EC road projects in Mozambique. The only appraisal to have been carried out was by a consultant appointed to provide on-going expertise to the EC and the NAO in Mozambique.

An appraisal mission was carried out by this consultant in October 1999, to assess the management of 3 road projects: the Beira-Inchope road, and the Emergency Opening of Roads in Sofala and Zambézia provinces.

The appraisal found that all the road projects had experienced cost-overruns and delays in completion. These were particularly large in the cases of the Beira-Inchope road and the Sofala roads.

A number of weaknesses in project management were identified in these 2 cases which explained the cost-overruns and delays:

- Failure to update designs before commencing construction. In both cases, considerable time had elapsed between the design and the start of works, and the design should have been reviewed and amended (as it was in the case of Zambézia by the supervising engineers).
- Weaknesses in tendering procedures, with insufficient attention given to the capacity of both constructors and supervisors.
- Difficulties in relations between contractors and supervisors.
- Low capacity of DNEP to manage EC projects.
- Within the EC, insufficient deconcentration of decision-making to the Delegation.

Appraisal of EC Support to the Road Sector in Mozambique: Draft Report of Consultant's Second Mission, R.P. Cousin (Louis Berger) / EC, October 1999.

1.2 Evaluations of the 'rehabilitation programme'

Evaluation of rehabilitation budget-lines (1998)

This was a global evaluation of the 2 rehabilitation budget-lines: for Southern Africa (B7/3210) and for all developing countries (B7/6410), with Mozambique one of 4 country case studies. Mozambique findings included:

- May have helped consolidate peace by providing visible benefits, though there is a risk of frustration and social unrest when rehabilitation projects end
- Physical results prioritised, with little attention to improving the absorption capacity of local structures. Focus on infrastructure rather than knowledge-transfer
- Lack of 'exit strategies' to ensure financial and institutional sustainability after departure of the NGO – little engagement with local government structures
- No significant difference between the budget-lines – both cover wide range of activities across many sectors
- Lack of strategic planning and absence of sectoral policy priorities. Project decisions reactive rather than proactive. However, introduction of Call for Proposals should help
- Unclear rationale for geographical focus
- No gender strategy
- Not enough staff within the Delegation
- NGO capacity varies considerably, with "a marked difference between national and international NGOs"
- Weak coordination with other donors

Evaluation of EC Rehabilitation Budget-Lines B73210 and B7-6410, APT Consult, 1998.

Evaluation of Article 255

This was a global evaluation of Article 255 actions under the 7th EDF, with Mozambique one of 4 country case studies. Mozambique findings included:

- No strategy to guide actions – EC had to be reactive to funding requests, with funds going to some NGOs because there were few alternatives, despite strong concerns within the Commission about the project proposals of those NGOs
- Lack of staff in Delegation and Rehabilitation Cell led to heavy administrative burden and little EC staff involvement in project implementation
- Very little appraisal work, project monitoring, or evaluations
- At a later stage, provincial directorates were given a role in planning – i.e. in the *Social Reinsertion in Zambézia and Niassa* programme (Moz case study p.14)
- EC procedural delays have given the EC a poor image and may be leading the better NGOs to seek funding from other donors (p.15)
- EC has little involvement in sectoral policy discussions
- Focus on physical infrastructure rather than financial sustainability or links to national planning
- Very little attention to gender or the environment (p.22)
- Impact on peace – the report argues against the claim that the visible benefits of projects will have increased commitment to peace (pp.22-23).

Evaluation of EU Actions Financed by Article 255 "Assistance to Refugees, Returnees and Displaced Persons" under the 7th European Development Fund, 1997.

Evaluation of rehabilitation budget-line (1994)

Covering the period 1988-1993:

- Lack of an overall strategy for rehabilitation, and insufficient rigour in project selection
- Insufficient concern for sustainability
- Implementation generally does follow project proposals, but insufficient monitoring by the EC
- Infrastructure rehabilitation is of very variable quality
- While procedures have been simplified, delays are over-long, except in the case of the Quick Disbursement Facility (for small actions)
- Insufficient transparency in EC procedural requirements, especially with regard to local partners
- Sustainability: coordination with local administrations is insufficient and sometimes non-existent
- Insufficient monitoring and evaluation, and few indicators proposed for these purposes

Evaluation des Actions Financées sur la Ligne Budgétaire B7/5071 "Assistance aux Programmes de Réhabilitation en Afrique Australe": Mission au Mozambique, COTA, November 1994.

Evaluation of Handicap International

The evaluation covers the entire period during which Handicap International (HI) actions in Mozambique were financed by the EC, i.e. since 1986.

Background: HI has had 13 EC contracts since 1986, for a total of € 5.6 million. They have covered 3 types of action, all linked to injuries from mines: (a) paramedical activities (the core actions, especially in the early years), (b) social integration of disabled people, (c) mine-risk education and de-mining.

- All 3 types of action have been broadly relevant
- Project proposals of poor quality, with no use of the logical framework, objectives and indicators not clearly specified, little reference to Government policies or sustainability, and no evidence as to whether beneficiaries were consulted. While some projects themselves were nevertheless of good quality, inadequate preparation has affected the ability of some projects to phase out, as well as affecting monitoring and evaluation.
- Over-reliance on expatriate staff, with little training of counterparts, though this has improved more recently
- Insufficient consultation with beneficiaries
- Hard to assess effectiveness given unclearly specified objectives
- Some positive impact from direct activities, but expectations have been raised which may not be met as a result of low sustainability and limited capacity-building

Evaluation of the Actions of Handicap International in Mozambique under the Financing of the European Commission, Finnconsult, January 1999.

Overall evaluation of the 'rehabilitation programme'

An overall (1999) evaluation of the whole 'rehabilitation programme' drew similar findings to the previous evaluations. The conclusions of the overall evaluation are as follows:

Project preparation: Lack of strategy, with funding decisions reactive rather than proactive, and lack of transparency in decision-making, though introduction of Calls for Proposals in 1997 should help. No poverty impact assessments in project selection, and no gender mainstreaming. Complication of numerous instruments, each with own procedures. Project preparation made difficult by low staffing levels in early years.

Relevance: Focus on physical rehabilitation rather than institution-building – this focus may have been appropriate immediately after the end of the war, but not in more recent years. However, more recently growing attention to linking projects to Govt budgeting and planning. Road rehabilitation is

an area of EC support recognised as relevant, though the evaluation argues that techniques should be more labour-intensive.

Efficiency: Insufficient staff (both in Delegation and NGO Unit) to monitor all interventions. Too many sectors covered by the NGO Unit. Not enough attention to cost-effectiveness, and long procedural delays.

Effectiveness / impact: Physical results achieved, but in general “a partial and haphazard rather than global and systematic approach”. EC not involved in sector policy discussions, e.g. in education and health sectors. Little monitoring and evaluation, especially in early years – though recent improvements. Difficult to achieve beneficiary participation, especially since local decision-making structures are not yet democratic – top-down management common.

Sustainability: Lack of emphasis on financial sustainability – e.g. little attention to recurrent costs after departure of NGO. Low level of community mobilisation and local government involvement limits ownership and sustainability after the departure of NGOs. Little attention to institution-building, little support for district administrations. Only 15% of projects support local NGOs (and most local NGOs are set up in response to donor needs and have little absorption capacity).

Evaluation of the Rehabilitation Programme in Mozambique, APT Consult, July 1999.

1.3 Programme Food Aid evaluation

A Mozambique case-study was carried out in 1995 as part of a global evaluation of programme food aid, prepared jointly for the EC and the EU Member States.

Programme food aid was sold on local markets, supporting food imports for food-insecure countries, and was intended to provide on-going balance of payments support and budget support to governments. It is to be distinguished from both emergency food aid and project food aid (e.g. through NGOs, assisting specific target groups). During the period 1989-94, 13% of all EU programme food aid went to Mozambique.

The overall conclusions of the global evaluation were that while programme food aid did provide balance of payments support, its impact on food security was only “marginally positive” and in some case had a negative effect on food production, and that it involved very high transaction costs (with imports often tied to European markets, high distribution costs, etc.)

As part of the overall reassessment of programme food aid, the EU in 1995 adopted a new Council Regulation on food aid and food security. This addressed many of the criticisms made in the global evaluation, and formed the basis for operations since 1996 through the food security budget-line (as discussed in this evaluation).

Specific findings of the Mozambique country study were that:

- During the period 1989-94, the EC provided 21% of all programme food aid to Mozambique.
- It provided a significant boost to food supplies (primarily in the south of the country, especially Maputo), and it provided important support to the balance of payments and to the budget.
- In 1992-93, a large increase in food aid, in response to the drought, caused significant distortion to the local maize market (the principal commodity distributed through programme food aid). However, the effects were temporary.
- In some cases, the EC sourced food commodities from local or regional markets, which improved cost-effectiveness and supported local production.
- In the early years of programme food aid, there were significant weaknesses in the Government procedures for the creation and recovery of counterpart funds, with an extremely low level of recovery of counterpart funds (27% for the period pre-1990). According to the report, the very low prices charged by the Government to market intermediaries in the early 1990s left scope for

questionable economic decisions to be made. In this context, the execution of EC programme food aid was suspended for certain periods (1991 and 1994).

- However, the EC was one of the most active donors in the process of rationalising procedures for the creation and recovery of counterpart funds.
- The development of import support programmes in more recent years appeared to have allowed for more effective support for the balance of payments and the budget.

Evaluation conjointe de l'aide alimentaire programme de l'Union européenne, seconde phase: Mozambique, étude approfondie, ODI / EC, October 1995.

Joint Evaluation of European Union Programme Food Aid: Synthesis Report, October 1996, ODI / EC, October 1996.

1.4 Food Security evaluation

An evaluation was recently carried out of the food security programme since 1996 (€ 44 million approval and € 26 million disbursement). The evaluation was a case study of a global evaluation of budget-line 2000.¹³⁸ The evaluation had limited resources (one person mission for 10 days). Because of the floods no visits were possible to NGO projects.

Overall conclusions

Relevant, coherent and well-focused. Quite effective, given results so far. Efficiency: some components not carried out efficiently, with delays. Sustainability: duration still too short to give an opinion. Good coordination with other donors.

Budget support through Food Security Facility

Delays in 1996 and 1997, particularly at Headquarters. 1996 conditions too strict in terms of rules of origin and reporting requirements. Relaxed in 1997, and 1997 facility made subject to evaluation of the whole budget of ministries and institutions rather than individual budget lines. Budget support to DNEP removed in 1997 facility, because DNEP would not allow adequate auditing procedures.

Effectiveness could not be precisely established since auditors could not trace link between inflow of funds and required expenditures. Effectiveness likely at macro and sectoral level, but doubtful at household level, since this depends on efficiency and effectiveness of Government institutions.

The separation between the Food Security financial facility and the GIP results in confusion because of different conditions and different implementation procedures.

Support to Ministry of Agriculture

Support of the FSU to the formulation and start-up of Proagri was efficient and effective, but too early to assess effectiveness of the TA to improve financial management systems. Good coordination (through the FSU) between the FAO, the EC and Member States in food security policy formulation. Support for an Early Warning System required further institutionalisation within the Ministry.

Support to Ministry of Industry and Trade, INGC and Emergency Food Reserve

Ministry of Industry and Trade. Long delay (2 years) between project approval and start-date, delays in staff appointments, and project inserted at too low a level in the Ministry. Too ambitious given the limited project duration, so impact less than foreseen. Given the delays, results so far have been effective, beginning the reform process within the ministry.

¹³⁸ Required 3 years after the entry into force of the new Council Regulation on the food security budget line – No. 1292/96.

Support to INGC (National Institute for Disaster Management). Support for a Consolidated Information System is relevant and so far has been very effective. Efficiency hampered by problems relating to salary top-ups for counterpart staff.

Emergency Food Reserve. Consultancy in 1999 concluded that there was little need for an emergency food reserve and that funds should be reoriented. GoM had not yet reacted officially.

NGO support

Project approval by Headquarters had been slow. The bigger NGOs appear to be able to ensure higher quality staff and thereby better project designs. Projects with fewer activities have been more effective than integrated projects. Greater geographical concentration required for better monitoring. The maximum project duration of 3 years was not sufficient to achieve sustainability. FSU Technical Seminars aim at training smaller NGOs with the experiences of bigger ones.

Domestic grain marketing – credit facility

Several studies completed, which should allow operations to begin later this year.

Evaluation of the EC Food Security Programme in Mozambique, first draft, Netherlands Economic Institute, May 2000. 54 pages, excluding annexes.

1.5 Rural Development Programme: initial assessment

Learning from evaluation lessons. The RDP is a serious attempt to address a number of the weaknesses of the rehabilitation programme. Among the strengths of the new approach are the following:

- *Project selection.* The selection of projects will be preceded by in-depth studies to define eligibility criteria for funding. The geographical and sectoral concentration will reduce the potential number of project proposals, allowing more time to analyse each proposal received.
- *Priorities.* The sectors selected for intervention are all key priorities for rural development. There is a strong emphasis on poverty reduction. The PMU responsible for managing the RDP will employ a poverty/gender specialist, and the proposed geographical areas of intervention have been selected with the goal of poverty reduction in mind.
- *Coordination.* Other donors have been involved in project preparation, including field visits.
- *Government involvement* is sought through presenting all proposals for approval to a Steering Committee that includes permanent representatives of the NAO and relevant line Ministries. This is aimed at ensuring that activities are in line with national priorities and that budgetary resources exist to sustain any physical rehabilitation undertaken.
- *Building local capacity.* There is a focus (at least in Zambézia) on building planning and implementation capacity at both provincial and district level. This will be achieved through training government staff, improved dialogue with civil society, establishing local development committees, and rigorous financial and planning processes. District staff will be trained in participatory planning techniques.
- *Supervision, monitoring and evaluation.* A staff member responsible for implementation will be placed in Zambézia Province (in line with recommendations from earlier evaluations) to increase local involvement in decision-making and to increase knowledge of local issues. There is a clear focus on monitoring and evaluation, through the use of Logical Frameworks, and the appointment of two TAs to act as monitoring officers.

Success depends on implementation details. However, despite the many positive aspects of the RDP, some issues remain unresolved, mainly about how the programme will be implemented:

1. The programme document lacks details in some areas. This is understandable, given the emphasis on decentralised decision-making, the need for in-depth studies before projects are selected, and

the involvement of local communities. When implementation starts, it will be important to ensure that the principles outlined in the programme document are adhered to. In particular:

- It is important that the Steering Committee does not micro-manage the RDP but focuses on ensuring compatibility with national priorities.
 - The quality of representatives on the steering committee is essential for success. This could overstretch Government and Delegation capacity.
 - Capacity at provincial and district level is an important constraint.
 - Some level of accountability of the PMU to local communities is also important.
2. The level of funding is high for provinces in which financial management and planning systems remain weak. Any pressure to spend funds within the time-limit would work against the principle of active beneficiary involvement, which can be a relatively long and slow process.
 3. INDER, the central Government counterpart for the programme, has recently been merged into the Ministry of Agriculture. This may affect its ability to carry-out its intended role within the RDP.
 4. In the short-term, certainly until the Programme Management Unit (PMU) is in place, there are likely to be delays in the programme, as implementation falls upon already over-stretched Delegation staff.

1.6 Towards an EC strategy to work with NGOs

A recent draft EC discussion paper indicates a number of the principles which could form the basis of a new EC strategy for working with NGOs:

Defining objectives

- The EC's strategy for NGOs should fit the overall EC strategy, with poverty reduction as priority. All objectives should be linked to monitorable indicators.
- Recognition that NGOs in Mozambique may both (a) complement and work with the State, and (b) strengthen civil society. While support should be given to the Government's plan to link NGO projects to Sector Investment Programmes, the Government should not control the process of project selection.
- Greater geographical and sectoral concentration, but without being so concentrated that local absorption capacity is exceeded.
- A Study on Civil Society Dialogue should take place, to analyse different civil society groups in Mozambique and how they can best be supported.

Harmonising instruments

- The core of NGO support will be (a) the Food Security budget-line, and (b) the RDP.
- While there should be harmonisation in the strategies of different budget-lines, the differences between instruments should be respected (e.g. the rationale of Co-financing is to allow links between northern and southern civil society, which requires some autonomy from EC planning).
- Pilot programming of the year 2000 Co-financing budget-line could involve 60% of funds being targeted on those geographical areas and sectors already targeted by the Food Security budget-line and the RDP.
- There should be harmonisation across budget-lines of expert salary scales, presentation of financial and progress reports, and time-scale of projects.
- Decentralisation of decision-making should be pursued.

Ensuring project quality

- Project selection should be more rigorous. Calls for Proposals should become standard. In the case of Co-financing, the new (2000) guidelines give Delegations a clear role in assessing the capacity and suitability of local partners.
- Consideration should be given to building capacity within local NGOs, including links with European NGOs, TA and training.
- Monitoring and evaluation should be more systematic, based on indicators, with results fed back into implementation.

Ensuring transparency

- Greater coordination with Member States could include information sharing, cross-participation in project selection, complementary financing, etc.
- Greater transparency with regard to NGO actions and instruments.

Discussion Paper: European Commission Co-operation with NGOs in Mozambique: Some Ideas for the Definition of a New Framework for Cooperation, EC, March 2000

1.7 Response to the floods: initial assessment

Limited Government capacity. The Government of Mozambique had limited capacity to respond fast to the floods in February 2000:

- the body responsible for disaster management, the INGC, had recently (1999) undergone a significant restructuring, replacing the DPCCN (in operation since the 80's). While there was some continuity of staff, the organisation was downsized, and staff had had little opportunity to adjust to their new role, which involved focusing on coordination rather than aid delivery. As a result, the INGC had not yet consolidated its institutional capacity.
- the INGC, like the DPCCN before it, was under the Minister of Foreign Affairs and Co-operation. This meant that the INGC had no authority over the sectoral ministries, which made intra-governmental co-ordination difficult.
- the INGC was still in the early stages of developing its strategy for responding to emergencies when the floods occurred.
- despite several months advance warning that the country would be hit by heavy rains, when they finally came, they were much more serious than the worst case scenario. Most countries would have had difficulties in responding to such an adverse event.

Nevertheless, an effective short-term Government response. Despite these difficulties, the disaster response worked well, because of a concerted effort by the international donor community and a high-level response by the Mozambican Government. As a result, there was low mortality amongst flood-affected populations:

- the levels of international support for Mozambique was high .
- the South African National Defence Forces played an important role in the early weeks of the crisis, their helicopters rescuing hundreds from the roofs of buildings and from trees. Their experiences in helping Mozambique during floods in previous years meant that they were well equipped to respond rapidly and effectively.
- military contingents from around the world worked well together, ensuring that supplies reached most areas of need.
- international non-governmental organisations and UN agencies worked well together, in the field and in co-ordination meetings in the capital. They also strongly supported the INGC, preventing the emergence of parallel structures for responding to the emergency.

- the Government of Mozambique facilitated the actions of international players, with a flexible approach to customs and visa regulations, and political support at the highest level.

Too early to judge effectiveness of reconstruction programmes. Donors and NGOs are now beginning to implement post-flood reconstruction projects: re-establishing livestock, rebuilding homes, bridges, roads, etc. While there is considerable experience in these areas, it is too early to assess their effectiveness in this case. Donors are working with the INGC to develop its institutional capacity to respond to future crises.

The EC needs to collaborate with other donors to learn the lessons on emergency preparedness and response that arose out of the experience of the last 9 months. For example, work is needed at regional level on early-warning systems. The February floods showed that current meteorological warning and modelling systems require further development, and that information on dam management measures needs to be more efficiently disseminated across the region.

Annex 2

EC interventions

7th and 8th EDF (approved) (> € 1 million) and selected budget-lines			
Sources of funds	Project	Amount € million	Date of commit- ment
		7th EDF	
Str. adj. facility, National	Structural adjustment support GIP 1	45.0	1992
National	Structural adjustment support GIP 2	15.0	1995
National	Roads rehabilitation programme Zambezia and Sofala province	30.0	1993
National	Rural health system rehabilitation in Zambézia province	26.0	1995
National	Reconstruction and resettlement programme	12.0	1993
National	Emergency support for roads rehabilitation and water supply	11.8	1992
National	Supply of voting materials (1994)	11.0	1994
National	Reintegration of displaced, refugees and demobilised	10.2	1992
National	Support for 1998 municipal elections	9.5	1997
National	Support for the 1994 electoral process	8.3	1992
National	Cahora Bassa-South Africa line rehabilitation	5.0	1995
National	Trypanosomiasis control programme	2.0	1992
National	Support for Mozambique students in Eastern Europe	1.9	1993
National	Socio-economic reinsertion of young people	1.9	1994
National	Second micro-projects programme (Gaza)	1.7	1993
National	Micro-projects programme in Manica province	1.5	1996
National	Support to the development of environmentally friendly tourism	1.5	1995
Article 255	Support for the rural health sector	15.4	1993
Article 255	Social reinsertion in Zambezia and Niassa provinces	5.6	1995
Article 254	Support to refugees and drought victims	2.9	1993
Article 255	Support to health services in rural districts	1.8	1995
Article 254	Humanitarian assistance to drought victims	1.7	1992
Regional, national	Beira-Inchope road rehabilitation	21.5	1994
Regional	Regional transport and communications integration study	5.8	1994
Regional	Regional training centre for public health (PALOP)	3.5	1993
Regional	Bibliographic fund (PALOP)	2.5	1995
Stabex	Cashew nuts	1.6	1994
Stabex	Cashew nuts and kernels	1.2	1993

		8 th EDF		
Str. adj. facility, HIPC, National	Structural adjustment support GIP 3	67.8	1997	
National	Nampula to Nacala road rehabilitation	36.6	1999	
National	Rural development programme	30.0	1999	
National	Support to the general elections in 1999	21.0	1999	
National	Water resources management / Rural water supplies in Zambezi river basin	11.6	1999	
National	Micro-projects	4.8	1998	
National	Private sector development programme	4.8	1999	
Regional	SADC regional monitoring, control and surveillance of fishing	2.3	1998	
		Selected budget-lines 1993-1999		
BL 2000	Food security programme	43.6	1996-9	
BL 5071/3210	Rehabilitation in Southern Africa	36.4	1993-9	
BL 5076/6410	Rehabilitation in developing countries	17.3	1994-7	
BL 5010/6000	Co-financing of NGOs	14.5	1993-9	
BL 6201	Tropical forestry	2.6	1997, 9	
BL 5040	Environment	2.0	1993-5	
BL 5220/7020	Human rights and democracy	1.8	1994, 5, 7	

Sources: EC (2000c) and EC (1999d).

Annex 3

List of interviews

Delegation of the European Commission and technical units

Head of Delegation, Javier Puyol
Economic adviser, Jose C. Nunes
Adviser, Pablo Leunda
Adviser, Rui Costa
Second Secretary, Jenny Eklund
Attached Junior Expert, Enrique Clemente

Food Security Unit, Economist, Anna Maria Ribeiro
Food Security Unit, Agro-economist, Paolo Toselli
NGO Unit, Guglielmo Colombo
NGO Unit, Noel Cooke

Member States

Denmark, Ambassador Thomas Schjerbeck
France, Conseiller de Coopération Adjoint, Gérard Pourret
Netherlands, First Secretary, R. J. Van Den Dool
Sweden, First Secretary, Maude Svensson
Sweden, Project Officer, MPF accounting project, L. Tengroth
United Kingdom, First Secretary (Development), Ana Bewes

Other donors

IMF, Resident Representative, Arnim Schwidrovsky
UNDP, Deputy Resident Representative, Daphne Casey
USAID, Director, Cynthia Rozell
USAID, Agricultural adviser, Christine de Voest
World Bank, Resident Representative, James Coates

Government and TA

NAO Office

Deputy NAO, Belindo Come

Ministry of Planning and Finance

National Director Treasury, National Director, António Fernando Laice
National Director Budget, Domingo Lambos
Gabinete de Estudos, Pedro Couto
Gabinete de Estudos, Antonio Franco (also HIID)
Inter-Sectoral Work Group, PARPA, Vitória Ginja (discussion with Dr Chris Cramer)
EC TA to the Treasury, Antero Barbosa
EC TA to the Treasury, Lourino Saute

Ministry of Agriculture and Rural Development (MADER)

Vice Minister João Zamith Carrilho

Ministry of Health (MISAU)

Coordinator Health Project EC TA – Zambézia, Hervé le Guillouzic

Ministry of State Administration (MAE)

Vice Minister, Mr Ayuba [meeting scheduled, but later cancelled by MAE]

ANE

Director, Carlos Fragoso

INGC

Deputy National Director, Gumercindo Langa
Head of Planning Department, João Zamissa

Central Bank

Head of Research Department [meeting scheduled, but later cancelled by Central Bank]
Monetary Policy Unit, Economist
Public Finance Unit, Economist

Civil society, political parties and private sector

MP, National Assembly

David Aloni (RENAMO)

Catholic Bishops Conference

Dom Januário Machave Nhangumbe

Liga dos Direitos Humanos

Director, Alice Mabote

LINK (NGO Forum)

Coordenador Adjunto, Augusto Pinto Novo

Coordinator of Human Development Report and Southern African Regional Documentation Centre

Antonio Gumendo

CTA (Confederation of Business Associations of Mozambique)

Executive Director, Sérgio Chitará

Commonwealth Development Corporation

AWEPA

Representative, Angelo Matusse

Austral

Jan Stevens (roads sector)

Annex 4

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