

## **Mid Year Review AIDE MEMOIRE**

### **I. Introduction**

On September 27, 2004, the Government of Mozambique met with the Programme Aid Partners (PAPs) and observers to conclude a review of Government's implementation of its Performance Assessment Framework (PAF) in the first half of 2004, to discuss the country's plan and budget for 2005 and to agree a revised PAF for 2005-07. The review was based on the Government's monitoring documents (first semester Balanço do PES and Budget Execution Report) and Government plans (headline information provided on the 2005 PES and the fiscal framework).

This Aide Memoire is structured as follows: overview of 2004 first semester performance and 2005 priorities; summaries of reports by the participating working groups; agreement on the Programme Aid Partners' Performance Assessment Framework and conclusions. The 2005 PAF (annex 1), PAPs' PAF (annex 2) and full reports (annex 3) from the working groups are annexed to the Aide Memoire. In addition the 2005 PAF matrix will be attached to the MoU.

### **II. Overview**

The review noted that there had been good progress in the first half of 2004, particularly in achieving PAF targets in health, education, agriculture and public sector reform. Key areas of concern were public financial management, the justice sector and private sector development.

Priorities for 2005 are agreed in the PAF matrix. The core challenges for 2005 are: i) renewed commitment in public financial management particularly agreement of the SISTAFE action plan and progress on roll-out, as well as reinforcement of external audit; ii) greater progress in judicial reform; iii) private sector development.

### **2004 First Semester Performance**

The mid year review (MYR) found that the Government was on track to achieve PAF targets in the areas of education outcomes and agriculture and health outputs, including key indicators for assessing progress towards Millennium Development Goals (MDG). In the area of public sector reform, progress was made on functional analyses, salary reform, the corruption survey, preparation of the local organs law for submission to the Council of Ministers and the expansion of district planning to five provinces. In the area of public financial management, it was noted that legislation and institutional development work in view of the creation of the Central Revenue Authority was on track. In the financial sector, the Financial Institutions Law has been promulgated and divestiture of state owned shares held in trust for Banco Austral and BIM employees is in progress. In the judicial sector, legislative reform was progressing well. Advancement was also noted in important non-PAF areas of poverty analysis, where key studies were undertaken on poverty profiles, determinants and inequality, and institutional and policy development processes in HIV and AIDS. The greatest area of concern in the first half of 2004 was public financial management including external audits. Overall budget execution was better than for the first semester 2003. However, execution was low in some priority sectors, particularly for investment in certain provinces, leading to insufficient outputs in water and roads. Budget reporting still needs improving. In SISTAFE reform, there

are concerns regarding the constant change in deadlines and revision of timeframes for the implementation of SISTAFE and e-SISTAFE going live. In the area of tax reform, the private sector continued to be unsatisfied with the slow processing of VAT refunds. In the judicial sector, there is continuing concern about high levels of pending cases, weak performance against all process targets, and the lack of a sound monitoring system. Performance was mixed in the area of creating an enabling environment for the private sector, with concerns about the dialogue between government and the private sector and the process of revision of the Labour Law, business registrations, inspections and regulatory environment. In the financial sector there was concern over slow progress on transition to IAS, the BIM divestiture strategy and the Banco Austral forensic audit.

### **2005 Priorities**

The revision of the PARPA was identified as a priority. This should be developed through a consultative process and incorporate cross-cutting issues including HIV/AIDS and gender and will be consistent with the MDG objectives. During the MYR it was agreed that a new indicator would be developed for monitoring Government's commitment to allocating resources to poverty reduction.

Public financial management has been highlighted as a key challenge for 2005. Timely budget execution in key priority sectors, particularly the investment budget at the provincial level, was stressed as an area requiring improvement in 2005, which requires a more effective working relationship between MPF and sectors. The quality, timeliness and availability of budget reporting must also improve. No final agreement was reached on the external audit indicator. In order to reach an outcome it is necessary that the Government sets up a process of high-level dialogue with the Administrative Tribunal following the mid-year review. Agreement of the SISTAFE action plan and progress on roll-out was also highlighted as a top priority. There is a need to ensure a rapid introduction of these cross cutting reforms into the priority sectors in order to translate them into improved service delivery.

It was agreed that greater efforts were required in the area of judicial reform. PAF priorities were identified as increasing the flow of cases through the judicial system, reducing the number of detainees awaiting trial, presenting a long term reform programme (including a system of planning, budgeting and monitoring) that prioritises service provision, and key legal reforms.

Private sector development was also highlighted as needing greater attention in 2005. It was recommended that Government should undertake measures to increasingly move from a controlling to facilitating role. In addition, it was recognised that there was a need for better Government – Private Sector – donor consultation and coordination.

In the financial sector reducing the exposure of the state to contingent liability and losses, and improving the solidity and performance of institutions continue to be the priorities.

### III. Sector and reform summaries

#### 1. Education:

**1st semester 2004:** Education outcomes are on track

*Progress:*

- Indicators in education enrolment have been reached; however, the indicator on completion rate can only be measured at the end of the year.
- The execution rate of current expenditures is acceptable for the sector.

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*Concerns:*

- The execution rate of investment is low, with differences between provinces. There are cases in the provinces where no investment has been made at the end of the first quarter.
- Sector financial management is a concern, but an action plan to accelerate improvement has been elaborated and agreed between MINED and CPs. Implementation has started and is being monitored.
- External funds should be channelled through and be on-budget in order to facilitate monitoring and evaluation.
- Programmes such as CRESCER, direct support to schools (ADE) and construction at low cost should be included in the budget.

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#### 2005 Challenges:

- Implementation of the strategic plan 2005-09 should focus on teacher training and low cost school construction. The strategy should be completed and reassessed in 2005, and successfully implemented from 2006.
- Necessary to discuss at 2005 annual sector review (RAR) inclusion of EP2 indicator in 2006
- Effective implementation of the PEE II (including its financial and operational plans) considering human and financial constraints at all levels.
- Timely implementation of SISTAFE in the sector.
- Particular attention should be paid to: creating a basis for institutional capacity building, improving financial and human resources management, implementing a viable strategy for teacher training (training, recruitment, deployment and retention of teachers), executing the strategy for low cost construction, combating HIV-SIDA, as well as approving and implementing the gender strategy.
- Introduction of adequate measures to improve access to secondary education, due to higher numbers of primary graduates.

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#### 2. Health:

**1st semester 2004:** Good performance

*Progress:*

- Reduction in infant and under five mortality rates, documented in 2003-2004 Demographic and Health Survey
- PAF indicators follow the current upward trend
- Overall volume of activity increased by 6.4% during first semester 2004 as compared to same period in 2003.

*Concerns:*

- Certain level of inequity in the access to health services between provinces as demonstrated by the difference in the number of VCT (voluntary counselling testing) users across provinces.
- Low budget execution rate due to delays in disbursement from MPF and donors
- Salary and incentive policy does not promote productivity and/or motivate health professionals to work under difficult conditions in remote areas. Recruitment process of newly graduated health workers remains slow and has not allowed for the absorption of workers under temporary contracts.

**2005 Challenges:**

- Implementation of investment plan and major health programmes is dependent on adequate funding, and government budget to health is not increasing at the same rate as GDP
- To improve budget execution it is necessary to minimise delays in transfers of funds from MPF to the sector.

**3. HIV and AIDS:**

**1st semester 2004:** Good progress on institutional and policy issues though some concern on outputs.

*Progress:*

- PAF Indicators: Six month data for the numbers on Antiretroviral treatment and the numbers of pregnant women and neonates receiving prophylaxis indicate that the targets set will be reached. Data on 2004 Prevalence is not yet available.
- New National Strategic Plan (PNCS II) is being finalized and is awaiting approval by the Board.
- Major steps towards harmonization of funding mechanisms and financial and managerial procedures within CNCS with the aim of creating one 'Common Fund' and one overall 'Grant Management' system for all potential implementing partners.
- Strengthened relationships between CNCS and its partners with a firmly established 'SWAp' type engagement.
- All key positions within CNCS have been filled, and additional positions identified as essential to CNCS fulfilling its core functions are in the process of being filled.

**2005:*****Reforms:***

HIV/AIDS is treated as a cross-cutting area. Indicators on prevalence and anti-retrovirals were replaced with indicators on (i) expansion of community and home based care and support for orphans and vulnerable children and (ii) strengthening capacity and partnerships and expanding institutional and program support

**Challenges:**

- Definitive acknowledgment of the role and mandate of CNCS as the responsible agency in leading and coordinating the National response.
- In the PES 2005 HIV/AIDS should be elaborated as a separate area with broader indicators to reflect the multisectoral nature of the National Response.
- The revision of the PARPA must ensure that HIV/AIDS is addressed as a truly crosscutting issue. The PARPA indicators should be revised in the context of the PNCS II, and adapted to ensure that they afford the opportunity to present a more accurate, measurable assessment of the epidemic.
- Increase the number of people receiving anti-retroviral treatment.

**4. Roads:****1st semester 2004:** Performance insufficient*Progress*

- Six contracts were awarded for the national road N1 rehabilitation and periodic maintenance.

*Concerns:*

- The Road Fund did not receive investment funds for construction contracts from MPF (20% Government and 80% donors).
- The funding for preventive maintenance – routine and periodic - has been received with delays
- Implementation of the national and provincial road preventive maintenance is progressing but still facing management problems

**2005 Challenges**

- Timely payments from MPF to the Road Fund.
- Increase the capacity of ANE to issue and monitor contracts, and with timely funding of the Road Fund, assure that payments due on contracts are made in a timely way.
- MPF to assume timely provision of Government contributions to donor funded rehabilitation contracts (80%-20%) so that money is not diverted from maintenance.

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**5. Water:****1<sup>st</sup> semester 2004:** Performance is mixed.*Progress:*

- Most of the activities in sector reform and water resources management are on track and progress satisfactory

*Concerns:*

- Low level and lateness of disbursement, particularly to the provincial level (with implications for disbursement of external investment funds).
- High accumulated debt of DNA, with damaging consequences on relations with the private sector.

- Estimates of PAF indicators indicate that the potable water and sanitation targets will not be met.

### 2005 Challenges:

- MPF and MOPH/DNA should make a special effort to compensate for the low disbursement rate during the first semester 2004, at central and particularly provincial level.
- MPF and MOPH/DNA should come to an agreement on a debt-rescheduling plan to eliminate accumulated debt. The debt situation should be reflected in the financial information presented by MPF.
- Improvement of the present performance monitoring system is a priority, especially in the provinces and will require a redistribution of human and financial resources in order to make it effective.
- DNA should provide comprehensive budget information on the sector.
- Stakeholders should reach consensus on the draft outline of the revised National Water Policy and the National Water Resources Strategy.
- Consultative process on strategies and action plans for promoting Small & Medium Enterprises in Rural Water Supply and Sanitation, including the future of the EPARs, and the implementation of pilot activities (in particular, for supply chains) undertaken in at least three provinces.

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## 6. Agriculture:

**1st semester 2004:** Overall performance is satisfactory.

### Progress:

- Province-led recruitment of new field extension staff and adoption of new outreach strategies did increase the coverage of extension services.
- Some vaccinations surpassed targets, although others (cattle) suffered from a breakdown in vaccine production.
- The agricultural marketing season is still in full swing and seems on track.
- 75% of the requests for land use rights were processed within the 90-day deadline, although overall the number of requests is lower than anticipated.
- The scaled-down target of 22% of forest concessions with approved management plans has now been exceeded (34%), but the challenge of monitoring compliance remains.
- Targets for the increase in irrigated area are on track.

### Concerns:

- Extension and provision of micro-finance. The number of micro-credit clients was targeted to sharply increase, but this seems unlikely to be achieved this year. Initiatives in this area need time to become effective.
- The reliability and quality of the information systems at MADER and some of its sub-sectors is still insufficient
- Linkages between PES, PAF and PAAO are insufficient
- A standardized reporting mechanism for projects in the sector on budget execution and technical progress, resulting in underestimated budget execution figures used by MADER and MPF.

**2005 Challenges:**

- Implementation of the institutional reform agenda including human resources reform plan
- Effective operationalisation and implementation of PROAGRI 2
- An effective and functioning management information system (SIG), to monitor both sector and MADER performance.
- Financial execution of projects nominally inscribed in the budget needs to be captured to consolidate financial management and reporting for the sector.
- Non-PAF priorities: Facilitation of access to financial services, with a focus on micro-credit clients; Increasing the number of processes authorized for obtaining the rights for land tenure (DUAT); Improving service delivery for livestock (measured by percentage vaccination).
- Assessing PAF performance in years that the TIA is not available. Proxy indicators will be used.

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**7. Private sector:**

**1st semester 2004:** Progress weak

*Progress*

- The working group to help Parliament's evaluation of the draft of the new commercial code has been established, in order to conclude this process by the end of the year.
- The Regulation for Commercial and Industrial Activities has been approved.
- The new regulation for hiring foreigners was approved (though it still needs to be improved).

*Concerns:*

- Concerns exist on the draft Terms of Reference for the revision of the Labour Law. There are still aspects that need to be improved i.e. hiring, firing, notice period, severance and the regulatory regime.
- The dialogue coordination mechanisms between government and the private sector should be more comprehensive and results are not as desired.
- The process of setting up and registering businesses continues to be a big concern for investors.
- Arbitrarily use of inspections are still a problem, although there is progress in MIC in the reformulation of inspection tasks in economic activity
- A myriad of other regulations and policy problems, including titling of land use, customs clearances, access to credit, enforceability of contracts and the inadequate judicial system continue to hamper private sector development.
- Possible delays in submitting revised commercial code. The commercial code should ensure that it simplifies business operations and be compatible with regional and international trading systems.

**2005 Challenges:**

- Implementation of the commercial code subject to approval by parliament
- Submission of the labour law (to reform hiring, firing and regulatory environment) is considered a priority since it currently holds back creation of formal sector jobs
- Following the approval of the Regulations on Inspection, the challenge is to revise inspection in all involved government ministries, in order to eliminate

inspector discretion in determining level of fines, ensure that the practice of inspectors sharing in fine revenue has ended and that the number of inspections has been streamlined to only those essential for public duty.

- In order for the private sector contribution to economic growth to be enhanced, there is a need for greater GoM/private sector/donor consultation (with ample time) and coordination.
- In order to contribute to SME growth and increased employment in the formal sector, there is a need for a genuine move from control of the private sector to a facilitating role for government.
- Sustainable funding mechanisms for improved access to modern energy should be identified.
- To facilitate the flow of international trade the diagnostic trade implementation integration study needs to be discussed within government with a view to implementation in 2005.

## 8. Financial sector:

**1st semester 2004:** Progress mixed. Some progress on three action areas but limited progress in other areas.

### Progress

- IAS Transition: The diagnostic reviews of BAU, Standard Bank, and BCI/Fomento have been initiated but slightly delayed.
- Legislation: The Financial Institutions Law (LICFS) has been approved and promulgated. Regulations are being prepared and are expected to be ready by end of September. The Bankruptcy Law (LFL) has been drafted.
- Divestiture: GoM divestiture of shares held in trust for BAU and BIM employees underway.
- Insurance: The new chart of accounts has been prepared and published.

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### Concerns

- Divestiture: Explicit strategy for state withdrawal from BIM has not been formulated.
- Strategy to regulate the investment practice of public companies is in the early stages of preparation.
- Forensic Audit: The forensic audit of BAU has not yet started.
- IAS transition: The overall IAS implementation strategy/plan has not yet been prepared due to delay in conducting a diagnostic of the commercial banks but it is expected that it will be completed by February 2005.
- Bankruptcy law: Likely not to be submitted to parliament in 2004.

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### 2005 Challenges

- Carry out forensic audit on BAU
- Divest from BIM
- Elaborate IAS implementation strategy and study possible implications of IAS on tax policies, regulations.
- Issue microfinance regulation, with attention to sustainability
- Finalise and implement strategy to regulate the investment of public companies

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- Supervise the insurance sector using the new chart of accounts. Prepare study to define transition to IAS.
- Develop and implement a plan for restructuring EMOSE
- Revise the social security law to allow private sector participation
- Prepare regulations for complementary pensions (private) and review the law on social protection

## 9. Public Financial Management:

**1st semester 2004:** Performance is mixed with some positive developments but some concerns.

- Budget execution: Performance is mixed

### *Progress*

- More off-budgets (donor funds and 'receitas proprias') have been captured than in the previous year.
- The PAF target on expenditures in health and education (at least 50% of priority spending) was met
- Macro level budget execution was good

### *Concerns:*

- According to updated information in the Quarterly Budget Execution Report (QBER) the spending in PARPA priority sectors reached 64% of total expenditure less interest payments. This is below the PAF indicator of 65%, but with extra efforts in the second semester the target is still within reach.
- In some key sectors budget execution is low and expenditure started late, mainly due to late transfers of the 'duodecimos'.

- Tax: Performance is mixed to positive

### *Progress:*

- Progress in main legislation and institutional development work in view of the creation of the Central Revenue Authority.

### *Concerns:*

- Revenue collection for first half of year is slightly below planned target for the period. The PAF target may still be achieved by the end of 2004, but the targets for 2005-07 were revised downwards.
- Complaints from private sector on underperformance in dealing with VAT reimbursements did not reduce. However, the VAT task force is still planned for 2004.

- Procurement: Performance is mixed, which is understandable

### *Concerns:*

- Possible delay in the approval of the new regulations before end of 2004 due to the timetable agreed at the Joint Review for the consultation process with the private sector and donors not being realistic.

*Challenges:*

Approval early in 2005 (before Joint Review), after a comprehensive consultation process involving all stakeholders.

- Audit: Performance is mixed

*Progress:*

- Good progress is made with the review of the internal audit functions: a strategic 5-year plan by IGF will be ready in October after discussion in the new coordination council for the internal control, as defined in the new Sistafe decree of June 04, which gives a greater supervision role to IGF.
- On non-PAF audit issues progress can be noted regarding the presentation of the audit of the 2003 General State Accounts by the Administrative Tribunal to Parliament in October 2004. Also follow-up by IGF on VfM audit of the drugs sector has been done and should be released as soon as possible after the MYR. IGF took the option of the water sector (as the second option proposed by the PAPs after the legal sector) as the new sector for the next Value for Money Audit.

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*Concerns*

- Assessment of the progress towards the 2004 PAF indicator related to external audit could not take place. No final agreement was reached on the external audit indicator for 2005. The MYR has proved a timely opportunity to re-evaluate the nature of dialogue with the Tribunal Administrativo. Both the Government and the PAPs have clearly identified the need for steps to be taken to address and involve the external audit institution in high-level reform dialogue. Government and the PAPs recognise the importance of this aspect of public financial management and the need to identify, by the end of 2004, an agreed PAF indicator for 2005-07.
  - The 2002 supplementary audit of MB 10 has once again been delayed due to the audit not being budgeted for and therefore the Treasury not paying the audit company. The solution to this problem needs to be found as soon as possible.
  - Recommendations of the Financial Audit Report 2003 still need to be implemented (see annex 3, section on audit).
  - Value for Money audit on roads has been delayed but should be delivered before the end of the year (end November).
  - Financial audit: It is recommended that the Financial Audit to be undertaken be properly budgeted for in the 2005 budget and should be delivered before the 2005 Joint Review.
- Sistafe:
    - Progress*
      - The e-SISTAFE is expected to be operational in MPF from 1<sup>st</sup> of November 2004 as progress has taken place in key aspects of the reform (legal framework, capturing relevant bank accounts into the new single treasury account, budget data in accordance with new classifiers, and system and user testing).
      - Some positive steps in the area of UTRAFE internal management, e.g. hiring of national project manager

*Concerns:*

- PAF indicator related to the pilot in MINED was postponed until early 2005.
- Need to strengthen management of the reform process
- Lack of timeliness of documents and the frequent changes in deadlines, for instance the change in deadline for the first quarterly Budget Execution Report based on SISTAFE from third quarter 2004 to first quarter 2005 and changes in the time-schedule for implementation.

• Fiduciary Risk Report:

*Progress*

- A fiduciary risk assessment has been carried out
- An in-depth discussion on the 2004 baseline report has been planned for November during a specific joint workshop, where presentation, content, follow-up measures, and preparation for the next year's report will be agreed.

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**2005:**

**Reforms:**

- The indicator and targets on external audit still needs to be agreed
- The discussion on the procurement target for 2005 is still underway

**Challenges:**

- A major problem is inadequate linkages and information flows throughout the budget process.
- As a result of the above the budget is not comprehensive and inconsistencies exist.
- The level of execution in the provinces, and the imbalances between the provinces suggest the need for closer dialogue and monitoring.
- Timely disbursements to facilitate the execution of planned activities, including at provincial level
- The government will initiate a constructive dialogue with Tribunal Administrativo to define jointly, by the end of 2004, an indicator to monitor progress in the area of external audit.
- In procurement, an agreement is to be reached on the reform process.
- The main challenge is to strengthen the reform management of Sistafe and identify realistic objectives for the implementation of e-Sistafe.
- A better indicator for effective anti-poverty budgeting and budget execution, including provinces and districts, needs to be analysed in 2005 as part of PARPA II and introduced in 2006.
- Institutional preparations for the establishment of the CRA, progress in processing VAT reimbursements and reaching the revenue targets, strengthening of tax administration functions (computerised system)
- Close monitoring of the follow-up of the implementation of the recommendations on internal audit, which is an important element of IGF's work.
- Completion of the first quarter Budget Execution Report through e-SISTAFE and publication on the internet.
- More regular cooperation between MPF and sectors on financial management issues.

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- There is a need to develop Fiduciary Risk Assessment as a credible tool for monitoring Public Finance Management, including by implementing in 2005 the follow-up measures agreed during the November workshop.

## 10. Poverty Assessment and Monitoring Systems:

**1st semester 2004:** Mixed progress

### *Progress*

- 1<sup>st</sup> time PAF was gone through (indicator by indicator) by the council of ministers. This has been extremely positive in facilitating ministerial oversight of priority activities
- Improved use of Balanço do PES as the instrument for monitoring the PARPA. Final Balanço do PES sent to parliament contains PAF as annex and all indicators reported on in main text. In addition, a PES matrix is included in the 2005 PES
- Strengthened poverty analysis
- Greater access to information (through INE portal)
- Strengthened non-state actor engagement (through second Poverty Observatory).

### *Concerns*

- Quality of monitoring documents (including inconsistencies in budget execution reporting and minimal evaluation of reasons behind performance on some PAF indicators in Balanço do PES)
- Quality of M&E systems, particularly in some sectors (e.g. justice, water)
- Integration between sectoral and central systems (e.g. agriculture and infrastructures)
- Lack of sector compliance with existing guidelines (e.g. no priority sector delivered Interim Balanço do PES reports on time)
- Lack of comprehensive guidelines set out to date on M&E systems, institutional arrangements, roles and responsibilities
- Weak coordination of central and sectoral and provincial M&E reform processes

### **2005 Challenges**

- PAF/PES matrix indicators need to be reported against in Balanço do PES
- The PARPA process should be consultative and include mainstreaming of gender, HIV and AIDS and other cross cutting issues.
- Mainstreaming gender into planning and monitoring processes. For the 2006 PES/PAF, consideration should be given to disaggregation by sex (particularly health and agriculture indicators) and including the African Gender Development Index. Relevant working groups in the Joint Review should include gender specialists.
- A study should be undertaken on poverty and social impacts (PSIA) of land tenure regulations. This is in line with the Letter of Intent between the GoM and IMF.
- Impact monitoring of district planning and financing, in relation to PARPA objectives, should be undertaken in some districts and results published in 2006.

- DNPO's limited capacity to play 'challenge function' vis-à-vis line ministries due to lack of sector specialists will make achievement of the above difficult in the short term.
- PARPA revision in the year immediately following elections will be a challenge.
- Need for better harmonisation in technical support provided by partners to M&E

## 11. Public Sector Reform:

**1st semester 2004:** Good progress is being made towards all 3 PAF targets, but ensuring the quality and ownership of these critical crosscutting reforms remains a challenge.

### *Progress:*

- UTRESP is leading a programme of improving the quality of functional analysis and MIC and MADER's have been approved, MPF and MINED are ready to submit to CIRES next quarter and MAE and MISAU are in course.
- A proposal for a salary reform policy is being prepared, with the process on track for approval in 2005.
- Field work and data analysis of the corruption survey is largely completed and draft reports ready for the Technical Commission to consider, though understandable operational delays in data collection mean that the publication and dissemination timetable now needs to be revised, to achieve publication in 2004.

### *Concerns:*

- Long term quality and ownership of these critical crosscutting reforms remains fragile.

## 2005 Challenges:

Global Strategy: Realism needed about work plans and funding requirements, as well as agreed roles for implementation including dialogue to ensure engagement and commitment of stakeholders.

- Functional analysis: Need to ensure a comprehensive analysis and dialogue based on 'problem identification', and to elaborate concrete recommendations for the restructuring phase. Decisions needed on key strategic issues (macro structure, budget ceilings, LOLE implications, capacity demands), human resources and mandates of Ministries.
- Anti-corruption survey: Important to ensure early public dissemination of the results, within holistic approach to combating corruption and understanding the implications of the agreed law.
- Salary policy: Important to ensure agreement of policy and implementation of related activities concluded according to target and with appropriate consultation.

## 12. Deconcentration and decentralisation:

**1st semester 2004:** Progress Mixed

### *Progress:*

- Gradual introduction of district planning (in 5 provinces). According to Government data, 22 Districts have their District Planning concluded, and further 19 are about to introduce it this year.
- Good discussion on draft *regulamento* of the Law on Local State Organs (LOLE) with lower levels of government and donors. The regulation is to be submitted to the Council of Minister this year.

#### Concerns

- Considerable delay in approval of the by-law to the LOLE and lack of clarity on the relationship between SISTAFE and LOLE.
- Participation and technical quality in district planning is still low.

#### 2005

##### Challenges

- Provide clarity reporting in the Budget Execution Report on budget transfers (FCA, FIIL) to municipalities
- Monitor district performance in participatory planning based on the *Guião de Participação*;
- Investigate options to increase allocations of Local Development Funds to districts through establishing clear criteria for intergovernmental transfer and targets for 2006-2007.
- Provide clarity on the availability of SISTAFE information to strengthen local downward accountability and integrated district planning, as well as transparency on central government and sectoral allocations, notably for investment;
- Provide clarification within the elaboration of the decentralization strategy with regard to "gradualism", i.e. the creation of new municipalities in function of the conditions set forward in of the law of the municipalities (2/97), as well as on sectoral functions transferred from Central Government (*Estado*) to municipalities;
- Introduction of district planning (rising from 53 districts in 2005 to 67 in 2007)

### 13. Legal and Justice sector reform

#### 1st semester 2004: Performance weak

##### Progress

- Vision process is currently taking place whereby strategic principles will be defined which in turn will determine the content of the long-term reform programme, including the revision of existing Plano Estrategico Integrado.
- The legislative reform is currently on track

##### Concerns

- Concerns about slow progress since Joint Review on key actions of enforcement of law and justice (2004 Joint Review Aide Memoire page 15).
- Despite the progress with the vision process, the target related to the elaboration and presentation of a long-term reform program including a system of planning, budgeting, and monitoring that provides priority to the sector services is delayed.
- Some PAF indicators were inadequately identified. This, as well as the lack of sufficient quantitative data, point to the need for a comprehensive and efficient monitoring system.
- BdPES does not reflect objectives and actions prioritised in the PAF 2004.

- Low execution rate of the investment budget in essential areas such as the prisons continues to constitute a serious human rights concern.
- The scope of the corruption survey related to the sector is not clearly defined and the institution responsible for the implementation of the survey has yet to be identified.

**Challenges:**

- The target for increasing the case flow through the judicial system still requires definition and agreement between government and PAPs
- Reduce time and number of people waiting in prison to be charged.
- Provision of services measurable
- Harmonised and effective system of M&E elaborated and consolidated
- Strategic principles approved and start being applied
- Functional analysis of the Ministry of Justice takes into consideration the sector strategic priorities and the anti-corruption plan of action
- Continuation of the study on budget execution and financial flows in the sector
- Improved reporting of PAF/PES targets
- Expand the integrity/corruption survey to the prosecution services

**IV Programme Aid Partners (PAP) Performance Assessment Framework (PAF)**

A Programme Aid Partners (PAP) Performance Assessment Framework (PAF) was agreed at the Mid Year Review and is annexed to this Aide Memoire. This PAF provides the basis for monitoring commitments made by the PAPs in the MoU for Programme Aid. It will be independently monitored annually, discussed during the Joint Review and performance reported on in the Aide Memoire. Commitments will be updated and agreed annually at the Mid Year review.

The PAF consists of one section reflecting specific and broad commitments PAPs signed up to in the MoU and one section reflecting broader aid effectiveness objectives to be monitored, which are not specifically set out in the MoU but reflect the determination declared by donors in the MoU to work in the spirit of NEPAD, The Monterrey Consensus and the Rome Declaration on Harmonisation. The PAP PAF is based on a baseline report, written by a team of independent consultants, on donor performance in 2003, in order to regularly monitor PAPs' progress in the future.

The baseline report noted that, even though international cooperation practice in Mozambique was generally considered to be progressive, considerable room existed for improvement. The report also highlighted the need to apply the spirit of the MoU to the overall portfolio, rather than just general budget and balance of payments support. It was proposed that individual PAPs will indicate what contribution they will make to achieving the PAP PAF commitments, and that an effort be made to translating the spirit of the MoU to the sectoral and reform levels.

**V Conclusion**

The process of the Mid Year Review is considered to have been successful. The establishment of joint working groups in sectors and reforms has been extremely helpful in ensuring agreement on the prioritisation of indicators and activities for

2005, drawn from and reflected in the PES. The PAF for 2005-07 has been in essence agreed on and is made up of a priority list of 49 indicators drawn from all the priority sectors and ongoing reform processes. Where indicators were identified as important, though unable to enter the PAF, they have been included in the PES matrix and main text of this Aide Memoire. The PAP PAF matrix for improved donor performance has been agreed and predictability of disbursements was identified as the key for improvement. The challenge of reducing transactions costs must be balanced against the need for improved quality of Government reporting and public financial management.

The MYR has been a useful vehicle for detailed discussion over a range of issues and enabled progress and concerns to be clearly identified. PAF targets in health, education, agriculture, and public sector reform are on track while performance in budget reporting, budget execution in some areas (particularly investment), the justice sector and private sector have all been identified as critical areas for improvement.

In terms of lessons learnt about the MYR process, it is recognised that the process needs to be better integrated with (and add value to) on-going intra-governmental and Sector Ministry-donor dialogue and that transaction costs need to be reduced. In addition, further consideration should be given to the timing of future MYR, and the concept of a headline budget should be clarified.