

Coordination of  
**Budget Support**  
Programmes

Lessons from the Joint Macro-Financial  
Aid Programme to Mosambique

discussion



**NORAD**

DIREKTORATET FOR  
UTVIKLINGSSAMARBEID  
NORWEGIAN AGENCY FOR  
DEVELOPMENT COOPERATION

## **Summary and conclusions**

This paper has been commissioned by NORAD with the objective of providing input to the discussion on donor coordination of programme support such as sector programmes and budget support programmes. The paper is based on experience and review of recent documentation of joint budget support programmes in four countries in Africa with main focus on the programme in Mozambique.

The main conclusions from the discussion on what elements need to be in place to achieve effective coordination are:

- Political conditions in the partner country need to be favourable in the sense that donor organisations and their governments must feel reasonably comfortable with the overall political situation. If there is disagreement between donors and scepticism regarding the political developments and situation in the country it is unlikely that it is possible to agree on a joint budget support programme. The reason is that the political consideration in donor headquarters is that untied budget and programme support represents a “reward” for positive political developments.
- The government in the partner country has to be open to the kind of policy dialogue that donors feel is naturally associated with this type of programmes. A joint budget support programme entails considerable risk for the government since vital support for the budget can be turned off if conditions are not met but on the other hand, such a programme represents significant potential gains in the form of predictability and reduced administrative burden.
- The participating donors must carry out joint assessments of the situation in the partner country. A common and shared understanding of the situation is vital to agree on best actions and next steps.
- There is need for active and continuous dialogue between resident donor representatives in the partner country to be able to smooth out differences as they arise and to be able to reduce the number of individual wishes for reporting and dialogue. A budget support programme is therefore dependent of resident personnel with interest and ability to deal with this type of issues.
- The PRSP process is very useful to get the right focus of the budget support programmes. The most common disagreement between donor representatives in programmes like these, concern the question whether to emphasize macroeconomic growth and stability targets, sectoral budget allocation targets or improved financial management. Because of the PRSP process it has become easier to agree that both the macroeconomic and the sectoral targets are important and relevant to reduce poverty levels.

## **Poverty focused budget support programmes**

The new type of poverty focused budget support programmes have developed as a result of the PRSP process and the experience that has been gained over the years in sector programmes or SWAPs. The definition of what constitutes a poverty focused budget support programme is not entirely clear. The main point is that the programme seeks to combine a macroeconomic support that will contribute to higher economic growth and at the same time

lead to increased resource flows into priority sectors and improved control of overall expenditures.

Joint programs of budget support is being tried out in several countries and in different forms. The countries include among others Mozambique, Malawi, Uganda and Tanzania. What they have in common is the focus on the following three elements:

- The implementation of a poverty reduction programme including increased expenditures on what is considered to be poverty alleviating measures and overall policy development.
- Improvements in the domestic resource mobilisation through more efficient tax collection and improved tax policy more generally.
- Improvements in public sector financial management systems to ensure better control with the use of resources in the public sector and better implementation of development programmes

Furthermore, these programmes are all based on agreements that specify a certain mode of dialogue between the partner country and the donors. Typically, the set-up includes quarterly meetings based on reports from the government, combined with an annual review of the programme. The annual review will include developments in the economy and in the poverty situation and policies. The organisation of the fact-finding work has varied considerably both in terms of the comprehensiveness of the terms of reference for the studies and in terms of the interaction between technical experts (consultants), government representatives and donor agencies' representatives.

Within these broad overall objectives a number of more detailed models have been tested. The degree of success so far, varies considerably. The programme in Tanzania appears to have been more difficult to establish and get operational because of lack of agreement between the participating donors and what is considered to be unfavourable political developments in the country. These political developments made it more difficult to provide such support for many of the donors.

In Uganda, the World Bank has taken the lead and prepared and implemented a Poverty Reduction Support Credit (PRSC) which is a budget support programme very similar to the joint donor programme in Mozambique. The programme is set to be joined by a number of bilateral donors who will use the same channel of funding and take part in the same dialogue as the bank. The credit has just been approved and there is thus limited experience with the functioning of the co-operation.

In Malawi, 4 donors<sup>1</sup> have joined in what is called Common Approach to Budget Support (CABS). The set-up of CABS is broadly similar to the Mozambique programme but there is no formal joint agreement, only similar bilateral agreements and an understanding to use the same meetings for the quarterly and annual dialogue.

## **The historical background in Mozambique**

The Joint Macro-Financial Aid Programme to Mozambique which provides untied budget support, has its roots in the import support programmes that started more than ten years ago. After the liberalisation of the economy in the country, the administrative rationing of imports ceased and importers were gradually given a freer access to foreign exchange. As a consequence it became increasing difficult and illogical to support to specific categories of

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<sup>1</sup> [UK, Denmark, Sweden and Norway. The EU Commission is considering joining and the World Bank has expressed interest in a joint programme of budget support](#)

goods or even to exclude certain categories of goods from the schemes. The budget support programme developed from the import support programme via a balance of payments support programme designed to support the introduction of a convertible currency and market determined exchange rates. It is therefore the end result of a process that links in with general economic developments in the country, in particular with the economic liberalisation.

The political basis for the dialogue was favourable in 1995 when Mozambique's first elected government became operational and set about to implement its policies. Many of the donors wanted to start off quickly on a type of programme support that would send political signals of support for the new political system and the development programme of the government. Furthermore, this coincided in time with the development of new ideas of a more programmatic approach to development cooperation in general. These ideas included clearer roles and responsibilities for the partner countries and an integration of development projects into national plans and priorities. A number of further factors provided clear incentives for the donors to coordinate and join forces.

One such factor was the perceived and real difference of opinion and interests between bilateral donors and the IMF and World Bank. The bilaterals wanted to present alternative views to the government on important economic and political issues. In order to do so with more political clout they coordinated between themselves and formed a kind of united front towards the domination of the IMF and the World Bank. Two events were important in leading up to this. The first was the indication by the IMF in 1996 that they considered declaring that Mozambique was "off track" on its' macroeconomic reform programme. This was seen as clearly undesirable by the bilaterals. The other was the publishing of the 1996 World Bank Country Assistance Strategy (CAS) which included some controversial statements about the policies of the government and which had been prepared without reasonable consultation with the bilateral donors. The bilateral donors had objections to both the IMF decision and the tone and overall assessment of the CAS.

The second important factor was linked to work on sector wide programmes by bilateral donors in some of the core areas of development cooperation. As work on these programmes progressed it was felt more and more that knowledge was lacking in the area of public financial management systems and budget implementation and sectoral allocations in the country. This was due to the fact that Mozambique has a very old-fashioned and, for most of the active donors, unfamiliar budgeting and accounting system. In addition, the government had not taken the trouble of ever finalising the accounts of the public sector since independence.

The third issue was that the overall assessments of the political situation in the country among the donors were broadly similar and overall very positive. The assessments of the economic developments on the other hand stressed that the country needed balance of payment support to finance a large trade deficit and debt repayments. This meant that the donor organisations would be inclined to view a proposal for untied support more positively than otherwise.

## **The need for macro financial support to Mozambique**

Economic developments in Mozambique have been favourable since the beginning of the 90's but the country still faces very significant development challenges. Poverty is widespread with GDP per capita remaining among the lowest in the SSA region and life expectancy at birth is as low as 45 years. Primary school enrolment and access to basic services are all well below SSA average.

In macroeconomic terms, there are two fundamental reasons for the need for macro financial support to Mozambique. The first is the need to finance a large and sustained current account deficit in a country which still has limited access to foreign financial markets. The deficit is the result of a very small export base and still insufficient capital inflows. The second is the

combination of low available savings in the economy, a high public budget deficit and the acute need to rebuild the country's infrastructure.

The objective of the programme is to support the Poverty Reduction Programme of Mozambique through flexible and timely macro financial (budget) support. The overall goals of the program is to contribute to and strengthen Mozambique's poverty reduction programme as is outlined in the interim Poverty Reduction Strategy Paper (PRSP) by:

- Supporting the overall macroeconomic reform programme and contribute to higher economic growth.
- Providing a financial basis for increased resource allocations to priority sectors. The government is in the process of determining the medium-term budgetary costs associated with the poverty reduction strategy and the outlook for external financing of the budget.
- Strengthening the dialogue on improved public financial management and increased domestic resource mobilisation. The government has announced that it is committed to achieve further progress on its program of social and structural measures and accelerating the process of public sector reform, particularly in the areas of fiscal transparency, governance, and accountability. In this context, the government intends to complete a review of fiscal management in relation to the Code of Good Practices on Fiscal Transparency.
- Reducing administrative costs for the government in the dialogue process.

In the Joint Programme participate: Belgium, Denmark, the European Commission, Ireland, Netherlands, Norway, Sweden, Switzerland and the United Kingdom. The terms and procedures to be applied in the provision of the support are defined in a common framework agreement that most donors signed during the latter part of 2000.

Individual bilateral agreements, defining support volumes and in some cases complementary technical assistance have subsequently been signed with: Denmark, the European Commission, Norway, Sweden and Switzerland. Efforts are now being made to pool resources for future support for technical assistance and system improvements.

## **Experience from coordination efforts**

The experience from these programmes is firstly that there is a danger of overloading the process with issues. Both fact finding missions, discussions between donors and with the partner country can easily become too complicated as a result. There is need for the donor group to compromise on what they want to see included in the dialogue and as benchmarks and milestones for the programme.

Experience has also shown that there is potential conflict between the participating donors on the issue of choosing the main focus of the programme. Some donor representatives emphasise the need for improved transparency and better budgeting and accounting (fiduciary issues and concerns), whereas others are more concerned with the macroeconomic and overall poverty developments. There is often therefore a need to separate policy issues and technical issues in the process of dialogue and fact-finding. Both these factors mean that involvement of local representatives of the donor agencies is essential. There is need for a continuous dialogue between the donors on the priorities of the

dialogue. It also means that embassies and representative offices need to be staffed by personnel who can take part in the dialogue by understanding the issues and having the right operational experience. It is very difficult to operate a budget support programme from head offices in Europe.



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