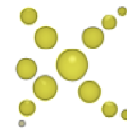




REPUBLIC OF MOZAMBIQUE



**PROGRAMME AID
PARTNERS**

ANNUAL REVIEW 2012

AIDE-MÉMOIRE

7th May 2012

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I INTRODUCTION AND CONTEXT

1. On the 7th of May 2012, the Government of Mozambique (GoM) and the Programme Aid Partners (PAPs)¹ concluded the Annual Review (AR) of the implementation by the GoM of the Action Plan for the Reduction of Poverty (PARP), in 2011, on the basis of the interim Matrix of the Performance Assessment Framework 2011 (PAF) of the Government and of the performance of the PAPs on Aid Effectiveness. It should be noted that, according to the MoU, the Government assesses PAPs' performances and the PAPs assess Government's performance, thus complying with the principle of mutual accountability.
2. The AR drew from the Government's plans and reports: The Economic and Social Plan (PES) and the State Budget 2011(OE), the Economic and Social Plan Balance 2011 (BdPES), the Budget Execution Report (REO) 2011, the State General Accounts of 2010 (CGE), the Sectoral Reports, Reports of the Thematic Groups, Synthesis of the XI Development Observatory and the PAPs Performance Assessment of 2011.
3. This revision drew key lessons that should produce effects in 2012 performance and in the process of planning and budgeting for 2013.
4. The AR of 2012 was the first in the framework of the implementation of the new structure of the working groups and involved twelve (12) Thematic Groups, distributed according to the structure of PARP, with three Objectives, namely Increased Production and Productivity in Agriculture and Fisheries, Promotion of Employment, Human and Social Development, two Support Pillars; Macroeconomics and Governance and the Group of Cross Cutting Issues. The Thematic Groups were constituted by representatives of the Government, of the Cooperation Partners and of Civil Society.
5. The present *Aide-Mémoire* (AM) consists of: 1) Introduction and Context; 2) A joint conclusion on the results of the Review; 3) Implementation of the MoU. The annexes of the *Aide-Mémoire* are: 1) PAPs assessment of Government's performance; 2) Government assessment of PAPs' performance 3) Government and PAPs PAF Matrices; 4) Reports of the Thematic Groups; 5) Synthesis of the XI Plenary Session of the Development Observatory.
6. According to the Terms of Reference, in the performance assessment of the GoM, besides the documents mentioned in paragraph 1, the recommendations expressed by Civil Society during the XI Plenary Session of the Development Observatory and respective synthesis, which is an integral parte of the AM, were taken into account.

¹ Germany, Austria, the African Development Bank, World Bank, Belgium, Canada, European Commission, Denmark, Spain, Finland, France, the Netherlands, Ireland, Italy, Norway, Portugal, Sweden, Switzerland and the United Kingdom. These partners (PAPs) provide budget support and have signed a Memorandum of Understanding with the Government. PAPs' Associate Members are: the United States of America and the United Nations. The International Monetary Fund is an *ex-officio* member of the PAPs.

7. During the Annual Review process, the country received the International Monetary Fund Mission (IMF), from 05 to 16 March of the current year, which *held consultations in the scope* of the Fourth Review under the Policy Support Instrument (PSI) approved in June 2010. The mission pointed out that the economic programme between Mozambique and the IMF remained satisfactory. According to the mission, the economic growth in 2011, estimated at 7.1 per cent, was at forecasted levels. For 2012, the mission expects growth to reach a level in close proximity to the one observed in the previous year, although subject to possible risks of deceleration due to the world's current conjuncture. On the basis of this scenario, the mission considered the adequacy of the Government's adoption of more accommodating economic policies in 2012, safeguarding at the same time the recent gains of disinflation, in order to mitigate a possible impact of a temporary global economic slowdown. The mission welcomed the initial steps towards the implementation of the PARP and urged the Government to intensify the implementation of measures and actions that lead to increasing of agriculture production and productivity, employment creation, promotion of human and social development, as well as the firm implementation of social protection systems.
8. As part of the Annual Review, and as determined in the ToRs, a meeting was held between the Ministers of the GoM and the Ambassadors of the PAPs Troika-plus to discuss several points at political level, namely: Process of the Annual Review, Management of Public Finances, Anti-Corruption, the PARP, Use of National Systems, Management of the Variable *Tranche* and Capacity Reinforcement.

II JOINT CONCLUSION

9. In line with past years' experience, the review offered a solid basis for discussions at different levels and the work took place in a constructive atmosphere. This evaluation takes into account the general environment, the concerns and trends in each of the assessed areas, as well as the indicators of the Performance Assessment Framework (PAF) of the GoM and the PAPs.
10. The AR noted that in 2011 a series of positive and notable steps were taken, such as the submission to Parliament of the anti-corruption legislative package, the approval of the PEDSA, the signing of the Compact of CAADP, efforts to increase the capacity of local levels of governance and the development of strategies for key sectors. Notwithstanding the registered progresses, the AR noted that legislative reforms and the elaboration of strategies are not sufficient in themselves; therefore it is necessary to accelerate the implementation of the approved plans, in order to contribute to the global objective of PARP of reducing poverty and promoting inclusive growth. By way of illustration, it is necessary to identify the needed investments in the agrarian sector, accelerate reforms in the business environment area, governance, continuing the preparatory work to

implement the anti-corruption legislative package and to be attentive to the area of Public Financial Management.

11. Likewise, the AR verified that on the side of the partners, as a whole, the performance in 2011 registered notable progress and the partnership around the MoU was consolidated. Nevertheless, remaining challenges are (i) the need to improve the management and transparency of the variable *tranche* so that the principle of predictability of the external funds, in the medium term, is not affected; (ii) the need to improve the compliance with the plan of disbursements, mainly for the Common Funds; (iii) increase the use of national systems, particularly for channelling resources to the Single Treasury Account “*CUT*” and the use of national ‘procurement’; as well as (iv) the need to reduce the costs of transactions related to the number of missions that visit the country.
12. The interim PAF matrix of the Government is composed by 39 indicators and respective targets. The overall result of assessment of the indicators is similar to last year’s, with 22 targets met and 17 not met from which 8 registered progress. The performance in 2011 was in general satisfactory, with the exception of Objective 2, Promotion of Employment, where performance in relation to indicators and targets was not satisfactory. One of the issues that affected the Employment area is related to the quality of the indicators. After the assessment, it was verified that a joint work to revise the identified indicators in paragraphs 37 and 38, will be necessary, in order to reinforce the strategic focus of the PAF, making them measurable and more and more aligned with Government’s strategies. Likewise, the AR noted the need to establish a PARP monitoring system, stronger and yearly based, to identify ‘proxies’ that would enable better indication of the results in terms of the objective of fighting poverty and promoting inclusive economic growth.
13. According to the results of the PAPs performance assessment, in relation to the compliance of the 19 indicators and targets of PAF, improvements in some areas are visible and as a group they registered a slight drop in their score, of one percentage point, if compared to year 2010. However, the performance assessment of the PAPs is considered satisfactory. From the total of 19 targets, 6 were met, 13 were not met, from which 4 registered progress.
14. The PAF indicators, both of Government and PAPs, will remain the base of support for the process of mutual monitoring and assessment. Based on the available information, there is a satisfactory basis for continued budget support in 2013, however, it is recognized that there are challenges related to the technical dialogue at the sectoral level, and the quality and availability of the necessary data for an adequate assessment of the progresses made by the Government.
15. During the Annual Review of 2012 it was agreed that issues listed in the following paragraphs deserve special attention during year 2012.

Priorities to be developed jointly

16. Improve the implementation of the new structure of the working groups and other mechanisms of the joint dialogue, including the clarification of how the Cross Cutting Issues will be treated at the Groups' level.
17. Establish a strong PARP monitoring system and yearly based, hence enabling more analysis of the presented data, observing the trends, as well as related improvement and disaggregation of gender.
18. Jointly elaborate a new PAPs' Assessment Framework with related Technical Notes for the PAPs' PAF, aiming at improving the quality of assessments and monitor the effectiveness of Aid.
19. Actively participate in the elaboration of the Action Plan of the Commitments Assumed at the IV High Level Forum on the Effectiveness of Aid, held in Busan.

Government

20. Ensure the implementation of the Master Plan for Agrarian Statistics (MPAS), so that up to date agrarian and livestock statistical information is obtainable.
21. Accelerate the pace of reform in the business environment area through selecting actions that are more relevant and have more impact in promoting employment, in effective and comprehensive dissemination of reforms, as well as existing regulatory procedures.
22. Accelerate the implementation of the Strategic Plan of the Education sector with particular emphasis on the improvement of the quality of teaching, hence responding to the main challenge of the students' learning at all levels, in reference to the basic competencies of reading, writing and arithmetic in primary school.
23. Continue the strengthening of Public Financial Management to ensure transparency and efficiency of the management of public funds.
 24. Deepening of the Extractive Industry Transparency Initiative (EITI) agenda, addressing the challenges of increased transparency on contracts, on the use of revenues and environment issues.
25. Accelerate the fight against corruption by means of implementing the existing strategies, as well as the ongoing improvement of the legal framework based on the impact assessment.
26. Reinforce the capacity and transparency in the system of public acquisitions '*procurement*', in particular the approval of the career in public procurement, the installation of the system of information management to ensure monitoring.

Partners

27. Improve the issue of predictability on the basis of timely disbursements, both for General Budget Support as well as in the framework of Common Funds.
28. Improve the mechanism of the Variable *Tranche* Management, hence making it clear, transparent and predictable.
29. Increase the use of national systems (specially the Single Treasury Account-CUT and the 'Procurement' system), particularly in relation to projects related modalities.
30. Provide more attention to the quality of information presented in the Data Base ODAMOZ (more specifically related to the Beneficiary Management Units (UGBs, Supply of Resources, etc.).
31. Pay more attention to the objective of Reinforcement of capacities (including the reduction of Individual Missions and the number of PIUs)
32. Provide multiform support to the process of drafting the Code of Conduct foreseen in the International Cooperation Policy.

III IMPLEMENTATION OF THE MEMORANDUM OF UNDERSTANDING

Requirement for presenting reports/syntheses

33. The requirements of the MoU for presenting reports/syntheses were followed by the Government according to paragraph 28 of the MoU. These documents and reports/synthesis (PARPA II, PES 2011, OE 2011, CFMP/MTFF 2012-2014, BdPES 2011, REO 2011, CGE/SGA 2010, Report and Opinion of the Administrative Court 2010) served as the basis for the Annual Review of 2012, enabling a permanent dialogue during the process. It should be referred that the Budget Execution Reports were produced and published quarterly and that there is increased online availability, which is seen as a positive trend.
34. The profile (sectoral, regional distribution) of MTEF 2012-2014, as well as the proposed State Budget 2012 were analysed during the process of the 2011 PAF Planning Meeting. The State General Account of year 2010 and the related Opinion of the Administrative Court were assessed by the Budget Working Group during the AR process (see the report of the Budget Thematic Group).

Dialogue and Review

35. The processes of monitoring and dialogue between the 2011 PAF Planning Meeting and the 2012 Annual Review were held with the trial and implementation of the new Thematic Groups structure during both events. A new PAF covering 2012-2014 was approved, PARP period of effectiveness, and an agreement reached for 2012 targets and respective technical notes, as included in the annexed final version. Complying with the ToRs, the AR used Portuguese as the working language, allowing a wider involvement of stakeholders in the process. According to the ToRs of the 2012 AR, global performance of Public Financial Management (PFM) was evaluated, besides the specific issues of PAF indicators, on the basis of a synthesis of the various available 2011 reports. The overall detailed analysis is included in Annex IV.
36. The AR acknowledged that of the 16 studies, notes or analysis identified during the 2010 PAF Planning Meeting, 6 were executed, 4 are still ongoing and 6 were not carried out for various reasons. The stocktaking exercise of the studies during the Annual Review was pertinent as it helps to ensure a bigger dissemination of their results.
37. During the Annual Review, an agreement was reached to reformulate the following 2012-2014 PAF Government indicators, numbers 5, 6, 8, 15, 16 and 23. 2012 indicators might be different from those of 2011, the change was done in the scope of the approval of the new PAF 2012-2014 (verify the indicators list of 2012 PAF).
38. In reference to PAPs' PAF, it was agreed to revise and adjust it to the new context *post* Busan. It was agreed to reformulate the following 11 indicators: 1, 3, 4, 5, 6, 7, 8, 9, 12, 15, 16 and 5. And to eliminate 6 indicators: 10, 11, 14, 17, 19 and 20. Regarding the Technical Notes, it was agreed that all should be reviewed. Also see Annex III – the PAF column of pending issues in relation to the Technical Notes and indicative targets. It was agreed that the new indicators should already be applied in 2012, unlike the normal jointly planning process. This exception is justified by the urgent need to adapt the indicators to obtain a better quality assessment of the PAPs. A joint work will be performed, that will culminate in the adoption of the new 2012 PAF during the 2012 Planning Meeting.

Audits

Performance Audit

39. This is the second consecutive year that the performance Audits are not available during the AR. This situation is due to complex factors that need improvement. In relation to the performance audit of the Natural Disasters sector, it should be stated that its conclusion

is delayed, however, the consultant is finishing the report jointly with the IGF and the final version is expected during the month of May.

40. Regarding the Performance Audit of the Social Action Sector, a tender was launched to contract consultants who, together with IGF technicians, will perform the audit. The report is due to the first quarter of 2013 in order to be used in the 2013 Annual Review process.

Audit of the financial records of programmatic aid

41. Regarding the 2011 Flow of Funds Financial Audit, the Government received the preliminary document from the Auditor, for assessment, which was shared electronically with the partners.
42. In the context of harmonizing the Financial Records Audit Report to the Flow of Funds, related to the period that ended on 31 December 2011, concern about the exchange rates differences that impact the volume of the announced aid was manifested. On this subject and in the framework of Mozambique's joining to Article VIII of the IMF statutes, from 1 July 2011, procedures regarding the determination of exchange rates were altered, in order to allow that the exchange rate used in transactions would reflect the market's most updated information, at the moment of realizing the operations. To reflect this change, the process of revising annex 6 of the MoU on this issue is undergoing.

Audit of State Accounts

43. The State General Accounts (SGA) 2010 were submitted to Parliament in May 2011 and the Opinion of the Administrative Court on the SGA was submitted to Parliament on November 2011, both within the period stipulated by Law. The State General Accounts were made available in the web site of the Budget General-Directorate (DNO). The Administrative Court Opinion and Report on the State General Accounts 2010 were made available selectively on the G19. The PAPs have shown concern about the need to make it available to the public through the Administrative Court site. However, the Administrative Court justifies that by the strict interpretation of Law, it cannot be available electronically. So, the partners encourage the Administrative Court to make its Opinion available, when it is submitted to Parliament.
44. Generally, the Opinion of the Administrative Court on the State General Account 2010 includes many of the conclusions and recommendations already included in previous Opinions. About the findings 'regularly repeated', mainly related with deficiencies in internal control and archiving of information, the Opinion does not clearly indicate if the issues mentioned in these findings show trends of increasing or decreasing. The AR

verifies that there are few comments on the definition of the regulatory framework, as more laws and regulations were adopted, but the Opinion continues to show considerable challenges in the full implementation of the present regulatory framework. The Opinion still points out challenges in the Internal Control related to general accounting, management and own revenues accounting, budget managing (many relocations and spending in inadequate budget accounts), budget execution (mainly concerns about paid invoices and other expenses) and the management of assets and public contract (*procurement*). Additionally, the Administrative Courts Report reaffirms its concern on the organization of State investments and the repayment of past granted Treasury loans.

LIST OF ACRONYMS

AM	Aide Memoire
	Assembly of the Republic, Parliament
AR	Annual Review
BdPES	Balance of Economic And Social Plan
CAADP	Comprehensive Africa Agriculture Development Programme
CFMT/MTEF	Mid-Term Fiscal Scenario
CUT	Single Treasury Account
DNO	Budget General Directorate
GoM	Government of Mozambique
GFP/PFM	Public Finance Management
IMF/FMI	International Monetary Fund
ITIE	Extractive Industry Transparency Initiative
MdE	Ministry of Education
MoU	Memorandum of Understanding
PAF	Performance Assessment Framework
PAP	Program Aid Partners
PARP	Action Plan for Poverty Reduction
PEDSA	Strategic Plan for Agriculture Sector Development
PES	Economic and Social Plan
PSI	Policy Support Instrument
PIU	Project Implementation Unit
REO	Budget Execution Report
SGA/CGE	State General Accounts
TA	Administrative, Fiscal and Accounts Court
ToR	Terms of Reference
UGB	Beneficiary Management Unit
UIP/PIU	Projects Implementation Unity

