Overseas Development Institute

How, When and Why does Poverty get Budget Priority

Poverty Reduction Strategy and Public Expenditure in Mozambique

Case Study 5

Adrian Fozzard

Working Paper 167

Results of ODI research presented in preliminary form for discussion and critical comment

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How, When and Why does Poverty get Budget Priority?

- about the research series

This is the synthesis paper of CAPE's research on *How, When and Why does Poverty get Budget Priority?* It is based upon the findings of five country case studies. The full list of research papers in this project is as follows

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Contents

Boxes

Tables

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Acronyms

CWIQ	Core Welfare Indicator Questionnaire
DNPO	Budget and Planning Directorate
EMRS	Expenditure Management Reform Strategy
ERP	Economic Reform Programme
ESP	Economic and Social Plan
FDI	Foreign Direct Investment
FSS	Food Security Strategy
GDP	Gross Domestic Product
GOM	Government of Mozambique
HIPC	Highly Indepted Poor Countries
IDA	International Development Agency
IFPRI	International Food Policy Research Institute
IMF	International Monetary Fund
I-PRSP	Interim Poverty Reduction Strategy
MPF	Ministry of Planning and Finance
MTEF	Medium term Expenditure Framework
NGO	Non-Governmental Organisation
NPP	National Population Plan
NSI	National Statistics Institute
PARFA	Action Plan for the Reduction of Absolute Poverty
PIP	Public Investment Programme
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
UNDP	United Nations Development Programme
UNOHAC	United Nations Office for Humanitarian Assistance Coordination

1 Background

Over the last twenty years Mozambique has undergone fundamental economic and political transformations from a centrally planned to market economy, from war to peace, from one-party state to multi-party democracy. These transitions have important implications for development policy and reform agenda followed by the Government and so are briefly examined here. A timeline of the key steps in these transitions is presented in Table 1 to help readers identify linkages between changes in political-economy, the evolution of poverty reduction policy and reforms in public expenditure management.

From central planning to market economics

Faced with economic collapse following to drop in 45% in output during the first half of the 1980s, the Government of Mozambique initiated a move away from centrally-planned economic system in 1985. This paved the way for agreements with the World Bank and IMF in 1986 and the launch of an Economic Rehabilitation Programme in 1987. The ERP provided the framework for a structural adjustment programme, focusing, initially, on macro-economic stabalisation and the development of a market-oriented institutional framework, including progressive trade liberalisation, devaluation of the *metical*, removal of administrative controls on domestic prices, and privatisation of public enterprises. Concerns regarding the social impact of adjustment led both the Government and Bretton Woods institutions to pay greater attention to social development issues and in 1989 the reforms were renamed the Economic and Social Rehabilitation Programme. During this initial stage of adjustment, the on-going war limited both the scope and pace of reform measures and the extent of economic recovery. Nevertheless, progress was made: inflation dropped from 163% in 1987 to 34.5% in 1991, the fall in GDP and exports was reversed, and growth rates were about 3.2% and 12% respectively over this period.

After the signing of the peace accords in 1992 and the transition to a multi-party democracy in 1994, the pace of economic reform accelerated. In 1993 the prices on major food products were liberalised, by the end of 1996 administered prices had largely been abandoned and those that remained were regularly updated, and minimum prices for food crops were replaced with indicative prices in 1997; the privatisation programme took off in 1994 and was largely completed by 1999 with over enterprises 1,200 sold; the Bank of Mozambique's central bank and commercial operations were seperated out in 1992 and the state owned banks partially privatised in 1996; tight controls were imposed on public spending from 1995 to 1996 while measures were taken to improve expenditure management and revenue collection, including the contracting of a private company to manage customs administration (Arndt et al, 2000). The post-war period has seen substantial investments in infrastructure and the rehabilitation of public services, particularly in rural areas, with GDP growth rates averaging 8.2% a year from 1993-98 and inflation brought down to single figures by 1997. This pattern of strong growth and price stability was interrupted by extensive flooding in early 2000, with growth slowing to under 4% and – helped by a relaxation in monetary policy – inflation rising to nearly 17 %.

The restrictive fiscal and monetary policies pursued by the Government in the post-war period have been criticised on the grounds that this has slowed the pace of rehabilitation and recovery. Such prominent economists as Jeffrey Sachs have argued that 'reconstruction and rapid growth in Mozambique should take precedence over rapid disinflation' (in Hanlon, 1996: 125). The Government has also been criticised for giving excessive concessions to foreign investors, particularly those associated with 'mega-projects', in order to encourage private sector, export-led growth. It has been argued that smaller, domestically financed private sector initiatives should have been given higher priority in order to spread the benefits of growth more broadly (Abrahamsson, 1997; UNDP, 1999).

From war to peace

Mozambique's civil war left rural areas devastated: 60% of first level primary schools, 40% of primary health posts and about a third of all rural shops were destroyed or closed; around four million people, about a quarter of the population was displaced, either internally or as refugees in neighbouring countries (NPC, 1994). The central and northern provinces, where Renamo controlled almost half of the land area, were worst affected: in Zambezia only 12% of primary schools were still operational when the war ended.

Work on reconstruction planning started in 1991, well before the Rome Peace Accords were signed in October 1992, first as an initiative of Provincial Governors, then at the national level, leading to the preparation of a National Reconstruction Plan that was finally presented to donors in 1994. However, between 1992 and the end of 1994, the reconstruction effort was led by the United Nations Office for the Co-ordination of Humanitarian Assistance rather than the Government. Public officials' access to Renamo 'held' areas was often restricted and a substantial part of the funding for reconstruction was channelled through northern NGOs, which, though nominally acting in co-ordination with Government, often acted autonomously.

The peace dividend was slow to materialise. Defence spending actually increased after the war in order to meet the costs of demobilising about 93,000 former combatants (72,000 of whom were former Government troops), the formation of a unified army and mine clearance. Payments to demobilised soldiers continued to place a heavy burden into 1996, but defence spending dropped sharply thereafter. Considering that less than one in seven of demobbed soldiers received any vocational training, the reintegration was remarkably successful: despite the rumours that Renamo had maintained armed forces, there was no return to fighting even when Renamo lost the 1994 elections.

From one-party state to multi-party democracy

Approval of a new Constitution in 1990 opened the way to a multi-party democracy, with a President and unicameral National Assembly elected by direct universal suffrage. It also affirmed Mozambique's status as a market economy, established the rights of free association and freedom of the press, and made provision for a level of autonomous local government, thereby breaking-up the State's monopoly on organised economic, social and cultural life.

The Constitution was followed by a law on political parties in 1991, which required all parties to have national membership, prohibited the pursuit of regionalist, ethnic or tribalist policies and provided for public subsidies for parties securing parliamentary representation. Over a dozen small parties emerged to contest the first elections, though only two were serious contenders: Frelimo, the governing party since Independence, and Renamo.

87% of registered voters turned out for the first multi-party elections in October 1994. Frelimo's presidential candidate, the incumbent, Joaquim Chissano, won by a clear margin over Renamo's Afonso Dhlakama, but the legislative elections were much closer, with Frelimo winning 44.3% of the votes against Renamo's 37.8% and the Democratic Union's 5.2%. This gave Frelimo a small majority in the National Assembly, with 129 seats against the opposition's 121. Frelimo slightly increased its parliamentary majority in the 1999 elections, with 48% of the vote 133 seats, against

38.81% of the vote and 117 seats for the Renamo-led opposition coalition. President Chissano's electoral margin narrowed. In the 1999 elections none of the smaller parties managed to cross the 5% threshold of votes required to secure parliamentary representation.

The results of both the 1994 and 1999 election were split along regional lines, with Renamo winning a majority in the central provinces and a substantial share of the vote in the north, while Frelimo won the overwhelming majority in the south. This may reflect ethnic allegiances and regional rivalries: Frelimo's leadership largely comes from the south of the country whereas Renamo's leader is from central Mozambique and northerners complain that the south has been privileged under Frelimo rule. However, it has also been argued that economic and social differences were more important than regionalist considerations, with poorer areas voting predominately for Renamo (Hanlon, 1996: 22).

From the very start, multi-party politics has been combative and acrimonious. Renamo was frustrated by the legislature's majority voting procedures, leading to walkouts and boycotts in objection to the 'tyranny of the majority'. Tensions increased following the 1999 elections, the results of which Renamo contested, leading Renamo representatives to paralyse much of the Assembly's committee work. Since the outcome of legislative voting is seen as a foregone conclusion, debates often descend into harangues and time-consuming arguments on procedural matters rather than analysis of substantive issues (Seidman et al, 2000). Cross-party lobbies have emerged amongst representatives from the same Province (Monteiro, 1998), though these constituency interests are ultimately subordinated to those of the party when matters come to the vote. Party allegiances have only been forgotten in matters related to deputies' collective interest, as in the voting of substantial increases in the Assembly's operating budget in 1995 and lifetime pensions for retired deputies in 1998. Following criticisms of corruption in political life, legislation was introduced requiring deputies and ministers to declare their interests in 1998. However, these statements were not made public, but were instead filed with the Attorney General.

The lack of genuine policy debate, self-interested behaviour and lack of transparency have led to public cynicism regarding politicians' motives. As one commentator puts it, Mozambique is has a 'low intensity democracy' in which the 'democratisation process is closely intertwined with elite pacting, cynical politicking and nest-feathering' (Harrison, 1999: 171).

Table 1: Reform Timeline

	Governance and Public Administration Reform	Economic Reform	Public Expenditure Reforms	Poverty Reduction
1986		Economic Reform Programme launched	Ministry of Cooperation created	
1987			Annual Economic Plan replaces Central Plan.	
1989		Privatisation programme starts. ERP becomes Economic and Social Reform Program	Public Expenditure Review by World Bank.	
1990	New Constitution approved.		Public Investment Programme introduced.	Social Dimensions of Adjustment unit set-up in Planning Commission. Private education permitted.
1991	Laws on freedom of association and media passed.		Reconstruction Plan starts at provincial level. Aid registration procedures regulated by decree.	Household Survey in Maputo City.
1992	Rome Accord ends war.	Central Bank established		Private health care permitted.
1993	Peace keeping operations start and UNOHAC established.	Prices on main food commodities liberalised.	Ministry of Finance and National Planning Commission merged.	
1994	First multi-party elections. Decentralisation law passed, providing for districts governance.		Reconstruction Plan submitted to Consultative Group Meeting.	94-99 Government Program identifies poverty as priority. Participatory Poverty Assessment carried out.
1995	Peacekeeping and UNOHAC operations end.. Civil Service Statute approved.	Customs Reform launched.		Poverty Reduction Strategy published.
1996	Decentralisation law rescinded.	Commercial Bank privatised.	Fiscal Management Review completed.	Autonomous National Statistics Institute created. Household survey starts.
1997	Municipal Legislation passed.	Food crop minimum prices abandoned. Development Bank privatised.	Budget and Planning Directorates merged. Budget Reform Strategy approved. Budget Framework Law passed.	Second National Census.
1998	System of careers and remuneration revised. Elections in 33 Municipalities.		Medium-Term Expenditure Framework introduced. NGO registration and reporting decree. MPF Guidelines on sector programmes.	Results of Household Survey published.
1999	Second multi-party elections.	Value Added Tax introduced. HIPC completion point.	MTEF 00-04 presented to Economic Council. First Public Accounts prepared for FY98.	Poverty Reduction Guidelines approved. Preparation of Poverty Reduction Strategy Paper starts.
2000	Interministerial Commission on Public Sector Reform established.	Enhanced HIPC debt-relief approved.	First audit report by Administrative Court on FY98 accounts.	Poverty Reduction Action Plan approved.

2 Poverty and Poverty Trends

2.1 The incidence of poverty

The national census in 1997, the first since 1980, and a national household survey in 1996/97, provide a much sounder basis for the analysis of poverty in Mozambique than has formerly been available. The results are startling and politically contentious, not so much because of the high incidence of poverty, which was widely anticipated, but because of the wide and consistent regional differences in the level of deprivation.

The household survey revealed that average consumption per person is around 50 cents a day, 69% of the population, 11.2 million people, are living below the poverty line[1] and 29% of the population are destitute (MPF/IFPRI, 1998). The incidence of poverty, as measured by the head count index, is significantly higher in the central provinces and in the far north than it is in the far south, as is the incidence of destitution (see Table 2). The incidence of poverty is also higher in rural areas (71%) than in the cities (62%), with 82% of the poor living in the countryside, though the depth and severity of poverty are similar in across both types of areas. It should be stressed, however, that the differences in the levels of consumption between destitute, poor and non-poor are small, as are distinctions between these groups in terms of many of the other variables analysed in the study. This suggests that a large proportion of the non-poor population is living precariously on the edge of poverty and may periodically fall below the poverty line and into destitution.

Table 2: Consumption and the Incidence of Poverty, 1996/97

Province	% Population	Average Consumption (Mt/per/month)	Average Consumption (($/per/month)	Headcount Index	Ultra-poverty Headcount Index
Niassa	4.9	**147,841**	**12.8**	**70.6**	**40.5**
Cabo	8.2	194,448	16.8	57.4	23.1
Nampula	19.5	161,668	14	68.9	37.1
Zambezia	20.3	**154,832**	**13.4**	68.1	34.4
Tete	7.3	**117,049**	**10.1**	**82.3**	**53.6**
Manica	6.2	191,608	16.6	62.6	27
Sofala	8.8	**97,906**	**8.5**	**87.9**	**65.2**
Inhamban	7.1	**128,219**	**11.1**	**82.6**	**53.7**
Gaza	6.6	183,233	15.9	64.7	26.5
Maputo	5.1	177,774	15.4	65.6	35.4
Maputo City	6.1	253,102	21.9	47.8	17
Mozambique	**100**	**160,780**	**13.9**	**69.4**	**39.3**

Source : MPF (1998)

Note: $ consumption calculated annual average exchange rate of Mt11,546

Income distribution is extremely unequal. Sixty-five percent of the population receive 25% of total income, while 5% receive 50% of income. Surprisingly – given the concentration of formal

[1] The Poverty Line is based on per capita consumption and calculated as the sum of food and non-food poverty lines. The food poverty line reflects the cost of meeting the minimum energy needs for age and sex-specific groups recommended by WHO. The non-food povrty line is calculated on the basis of the cost of aquiring a basket of non-food items (such as clothing, housing and transport) aquired by households that fall within 20% of the food poverty line. Adjustments are made for regional variations in prices. On this basis, the national poverty line is calculated as Mt5,433 ($0.47) day, with regional variations ranging from Mt8,714 ($0.75) day in rural Maputo Province to Mt3,359 ($0.29) day in rural Nampula Province The ultrapoor or destitute are those unable to satisfy even their basic calorific requirements (MPF, 1998).

economic activity in the capital – the distribution of income is somewhat less unequal in Maputo, with a Gini coefficient of 0.47 as compared with 0.52 nationwide. This compares with coefficients of 0.37 in Uganda and Ghana and 0.62 in South Africa.

Other indicators of the quality of life point to a slightly different distribution of deprivation, with the north of the country coming off worse in terms of life expectancy, infant mortality and adult literacy, while the problems of access to safe drinking water and household sanitation tend to be more acute in the central provinces (see Table 3). However, the central provinces continue to fall behind those in the south against all of these indicators. Similarly, the level of deprivation is worse in rural areas than in the cities, with, for example, infant mortality rates of 160.2/1000 in rural Mozambique as compared with 101.2 in urban areas and rural literacy rates of 28.2% contrasting even more starkly with rates of 66.7% in the cities.

Table 3: Quality of Life Indicators, 1997

Province	Life Expectancy and Birth	Infant Mortality Rate	Adult Literacy Rate	With Radio Set	Drawing water from river or lake	UNDP Human Development	UNDP Human Poverty Index
Niassa	**42.2**	**150.5**	**31.0**	**22.1**	**28.5**	**0.206**	**61.6**
Cabo	**39.4**	**166.5**	**25.0**	**20.8**	14.9	**0.190**	**67.8**
Nampula	**39.9**	**165.3**	**28.3**	**20.3**	13.4	**0.202**	**63.6**
Zambezia	**37.0**	**182.9**	**27.4**	**20.3**	**17.1**	**0.174**	**65.3**
Tete	43.7	127.4	33.2	25.5	**34.2**	**0.222**	**62.1**
Manica	44.0	128.9	42.3	33.4	**32.4**	**0.255**	**57.5**
Sofala	**42.2**	143.6	43.8	34.9	**20.6**	0.290	55.2
Inhamban	46.9	108.7	45.8	31.6	7.2	0.295	51.7
Gaza	46.3	112.8	47.3	36.3	13.6	0.299	49.1
Maputo	51.4	83.2	65.7	47.9	12.1	0.372	37.3
Maputo City	58.4	60.4	85.0	71.8	-	0.577	21.1
Mozambique	**42.3**	**145.5**	**39.5**	**28.1**	**17.0**	**0.271**	**56.8**

Source : INE (1999 and 1999a) and UNDP (2000)

Note: UNDP Indices for 1997, HDI on basis of GDP in meticals

UNDP has combined measures of per capita GDP with measures of quality of life to arrive at a single measure of Human Development and derives a Human Poverty Index[2] using a combination of quality of life and surrogate consumption indicators (UNDP, 2000). The results of both these analyses confirm a north-south continuum of deprivation (see Table 3), though they also suggest that, when quality of life indictors are taken into account, the incidence of poverty may be somewhat lower than suggested by the purely consumption based Poverty headcount index.

The census and household survey results also confirm the persistence of gender inequalities. Only 22% of women are literate, as compared with 59% of men, with female literacy rates dropping to 15% in rural areas. While female primary school enrolment rates have risen in recent years, they remain considerably lower than those for boys at the national level (45% as compared with 54% according to the household survey results) with larger disparities amongst the poor than the non-poor (see Table 4). The proportion of the rural non-poor living in female headed households

[2] UNDP's Human Development Index is based on three indicators: longevity as measured by life expectancy at birth; educational attainment as measured by a combination of adult literacy (two-thirds weight) and combined gross primary secondary and teritiary enrolment ration (one third weight); and standard of living as measured by real GDP per capita. The Human Poverty Index is based on an unweighted average of measures of the deprivation of longevity (% population not reaching 40 years), the deprivation of knowledge (adult illiteracy rate), and a composite measure of deprivation in living standards, comprising the unweighted average of three indicators: the percentage of the population without access to safe water; the percentage of the population without access to health services; and the percentrage of moderately and severely undeweight children.

(19.5%) is slightly larger than the proportion of poor (16%), suggesting that female headed households in rural areas are marginally better off. In urban areas the pattern is inverted. As the MPF study points out, however, female headed households are a heterogeneous category, within which some groups, such households headed by urban widows, show a disproportionate incidence of poverty (MPF, 1998: 69).

2.2 Poverty trends

There are good reasons for believing that levels of poverty have declined during the 90s. In 1992, the combined effects of the war and a devastating drought had left 3.8 million people, around a quarter of the population, dependent on emergency assistance. By 1995, most of the displaced population had been resettled and the emergency programme had been wound down (though it had to be reactivated because of floods in 2000 and 2001). The post-war years also saw significant progress in the rehabilitation of rural infrastructure. This contributed to the reactivation of agriculture, rural trade and steady economic growth, with per capita GDP rising from about $160 per capita in 1994 to $237 per capita in 1998. There was also a massive expansion of social services: the gross primary school enrolment rate, for instance, increased from 54% in 1994 to 75% in 1998, while the coverage of pre-natal consultation increased from 63% to 84% over the same period. Inter-censal comparisons reveal an improvement in less responsive quality of life indicators: from 1980 to 1997 life expectancy has increased from 38.7 years to 42.3 years, while adult literacy increased from 33% to 39.5%. UNDP calculates that national and provincial Human Development Indices have increased slightly over the 1996 to 1998 period, pointing to a continuing trend in improvements in the quality of life (UNDP, 2000: 24).

In the absence of consistent time-series covering both the rural and urban population, it is more difficult to identify trends in consumption based measures of poverty. A comparison of the results of the 1992/93 household survey of provincial capitals with the results for 1996/97 suggests that the incidence of poverty has fallen slightly, from 72.6% to 65.2%, though MPF cautions against drawing definite conclusions from this data (MPF, 1998a: 18). Other indicators closely related to household consumption have also shown a slight improvement: the proportion of children suffering with low growth rates has dropped from 11.2% in 1993 to 9.8% in 1998 and the proportion of children with low birth rates fell from 13.5% to 12% over the same period. The incidence of chronic malnutrition among children under five years, though still staggeringly high at 26%, is also lower than the levels recorded in isolated surveys at the end of the war (Macro International, 1999). This accumulated evidence lends credibility to the view that the incidence of poverty has declined in recent years, though a comparison of Gini coefficients for Maputo City in 1991 and 1996/97, at 0.47 and 0.48 respectively, suggest that the distribution of income remains largely unchanged.

Against these broadly positive trends must be set the spectre of AIDS. Although the first recorded case of AIDS was in 1986, the epidemic really spread after the war, when refugees returned from neighbouring countries. Projections suggest that by 1998 the number infected with HIV reached 1.14 million, equivalent to a HIV prevalence rate of 14.5%, with this rate rising to 15% in 2000 and 20% in 2010 (INE-MISAU, 1999). On the basis of these projections, it is estimated that the number of AIDS orphans will increase from around 100,000 in 1997 to well over a million by 2007. If current trends continue Mozambique, like neighbouring countries, will suffer significant increases in morbidity and mortality, overwhelming the health services and social safety nets, production will decline, household dependency rates will increase and so too will the incidence of poverty.

2.3 The determinants of poverty and their policy implications

On the basis of a series of multivariate regressions, MPF/IFPRI's (1998:91) analysis of the 1996/97 Household Survey identifies five determinants of poverty:

- **Low levels of human capital**. There is a close relationship between literacy and educational attainment of the head of household and poverty (see Table 4), particularly in urban areas and in female headed households: household consumption per capita is 29.6 per cent higher and the poverty headcount index 23.2 per cent lower where females have finished primary school than in those households where they have not. Literacy and educational attainment, female educational attainment in particular, is also important determinant of the use of health services and in the parents' decision to send children to school. Differences in children's schooling between the poor and non-poor are less significant than gender differences or differences between urban and rural areas, suggesting that social norms and physical access to facilities also play an important part in determining levels of enrolment. Poor access is a particular problem in the health sector: the survey reveals that the average distance to a primary school in rural Mozambique is 4.5 km, but the average distance to a health post is 19 km, a pharmacy 29km and a doctor 46 km. These conclusions point to the importance of increasing female enrolment and retention and improving access to social services.

Table 4: Characteristics of the Destitute, Poor and Non-Poor

Variable	Destitute	Rural Poor	Non-poor	Destitute	Urban Poor	Non-poor
Demograph						
Average Household	6.1	5.5	3.3	6.2	6	4.7
Average Dependency	60.1	55.8	47.7	61.4	57.6	47.9
Education						
H/H completed primary school or education	9.8	11.1	17	25.4	28.7	58.4
School attendance boys 7-11	48.2	50.1	55.9	52.7	57.9	77.6
School attendance girls 7-11	29.1	32.9	34.4	47.2	51.8	75.1
Health						
Has had a medical appointment	56.3	56.3	59.2	64.2	69.5	81
Children 5-12 without vaccination	31.2	32.4	42.9	35.1	6.5	4.1
Agriculture and Land						
Has a farm plot	98.7	98.9	97.6	72.8	62.5	41.3
Employ agricultural labour	7.1	9.3	7.3	16.9	17.6	43.5
Has some irrigated land	2.9	2.8	2.8	6.2	5.5	1.4
Uses pesticides and/fertilisers	1.1	1.4	1.5	1.7	3.1	6
Nature of Employment						
Public Administration	0.7	0.7	1.2	6.2	6.6	16.3
State Enterprise and Private Sector	3.6	3.6	3.6	18.1	24.2	33.6
Self Employed	43.2	45.2	53.1	46.5	45.5	37
Family Member, no renumeration	51.6	50.2	41.7	29.9	21.4	9.8
Other	0.2	0.3	0.5	2.4	2.2	1.7
Secondary						
With secondary productive activity	3.75	4.33	8.14	2.45	3.08	4.13

Source: MPF

- **High household dependency rates**. Poorer households tend to have higher levels of fertility than the non-poor, higher dependency rates (ratio between economically active household members and those that are not economically active) and lower per capita consumption. Interventions aimed at the reduction of fertility rates will, therefore, contribute to a reduced incidence of poverty.

- **Low agricultural productivity.** Low levels of agricultural productivity are an important factor in determining household income in both rural *and* urban areas. The study reveals that use of fertilisers and pesticides is extremely low, which partly explains the much lower yields achieved in Mozambique as compared to neighbouring Malawi, Zambia and Zimbabwe, countries with similar climatic conditions (World Bank, 2001: 66). The study also demonstrates that increased use of agricultural inputs has a statistically significant positive impact on per capita consumption. On this basis, the study argues that interventions aimed at increasing productivity in the family sector should form an important element of the poverty reduction strategy.
- **Absence of employment opportunities.** Non-poor families have more diversified sources of income than the poor and destitute. A number of studies have demonstrated the importance of seasonal employment on larger farms and agricultural enterprises for both the landed and landless rural poor (Cramer and Pontara, 1998; Pitcher, 1998). In the southern provinces migrants' remittances provide an important income supplement. In urban areas, a large proportion of the destitute and poor are self-employed, working in the informal sector largely as a 'last resort' when other forms of employment are not available (de Vletter, 1995: 10). In order to increase opportunities for income diversification and formal employment, the study advocates policies aimed at the expansion of enterprises in the agricultural, industrial and the service sectors in both urban and rural areas.
- **Weak economic infrastructure.** The study stresses the importance of access to markets as critical in increasing incomes in rural areas. Much agricultural production is still subsistence oriented: while 80% of rural households produce maize and 61% produce cassava, less than 10% of producers sell these commodities. Part of the problem lies in the isolation of rural communities, owing to low population densities (averaging 20 persons/km^2 but dropping to 3 persons/km^2 in the far north) and the poor coverage and quality of the road network. But the domestic trading network is also weak, with cases of farmers being left with unsold surpluses. The MPF study argues that the Government should focus on the rehabilitation and expansion of the transport network to overcome these problems, though a number of other studies have also argued that changes in licensing and credit facilities can also play an important role (World Bank, 2001).

The analysis of the determinants of poverty has served as the basis for recent poverty reduction policies (see Section 2.5). While this represents a significant advance over previous policy formulations – which tended to be based on qualitative assessments and imported policy models – there are concerns, not so much in relation to the content of the analysis as to what is omitted. Two issues are briefly addressed here.

The first relates to the stark regional differences in incidence of poverty which are largely ignored in MPF's analysis even though they are much more marked than the rural-urban differences which the study examines in depth. There are long-standing regional imbalances in Mozambique, partly as a result of environmental conditions: the central provinces are less suitable for dryland agriculture than the north of the country and, owing to tsetse infestation, are less suitable for extensive livestock husbandry than the south. Moreover, the central and northern provinces were, historically, the most isolated and least developed, with the weakest transport and social infrastructure before the war. The central provinces subsequently suffered the brunt of the fighting, with much greater destruction of schools, health facilities, roads and shops than in the south of the country (INPF, 1984; CNP, 1994). Such broad regional disparities will not be addressed directly by the study's proposed focus on rural development. They require a specific regional dimension to poverty reduction policy, allocating a larger share resources are allocated to the least developed provinces to redress regional imbalances in the access to services and markets.

The second relates to the narrow concept of poverty that has been applied. The MPF/IFPRI study recognises that measures of consumption fail to capture important dimensions on poverty such as consumption of public services and quality of life, such as leisure, longevity and health (1998: 5). Where these dimensions are taken into account, the relative incidence of poverty is likely to change (see Table 2), a fact that has not escaped the notice of some of the northern provincial governors who argue that deprivation is more meaningfully measured in terms of poor access to services and markets than it is in terms of consumption. By focusing on consumption as a surrogate of income, the study also tends to downplay the importance of differences in the distribution of assets. Although the models applied suggest that access to land and irrigated land is not a particularly significant determinant of poverty, numerous studies have revealed the existence of land-poor households, growing economic stratification and conflicts over land ownership (Hermele, 1992; Pitcher, 1999). Equally significant in the Mozambican setting, the narrow definition of poverty ignores the importance of empowerment, self-esteem and the respect of others.

2.4 The evolution of poverty policy and planning

Poverty issues first assumed a high profile in the development discourse in Mozambique in 1989, when, faced with mounting criticism regarding the impact of adjustment, the World Bank established a Social Dimensions of Adjustment project in the Planning Commission. This led to formulation of Mozambique’s first poverty strategy, submitted to the 1990 Consultative Group Meeting jointly by the World Bank and the Government. The strategy presented a policy framework similar to SDA-inspired initiatives in many other countries, identifying three priorities: the creation of employment and income generating opportunities for the poor, through continued adjustment and growth; increased access to basic social services; and the strengthening of safety nets for the poor (WB and GOM, 1990). Although the strategy recognised that the incidence of poverty was greater in rural areas than in the cities, the on-going war meant that rural programmes would have to be concentrated in the more secure priority districts identified in the late 80s, while the emergency programme would continue to provide a safety-net for the remainder of the rural poor. The strategy’s principal innovation was a system of targeted cash transfers for the poorest urban households, aimed at about 11% of the urban population, identified on the basis of age, disability and nutritional status, which was phased in as the rationing system – which had provided subsidised foodstuffs in urban areas – was scaled down and finally abolished in 1993.

With the end of the war, poverty reduction assumed a central place in the Government’s policy agenda. The SDA project terminated and, in 1994, responsibility for poverty reduction passed to a Poverty Alleviation Unit in the Ministry of Planning and Finance (MPF). In early 1995, the Government published its second Poverty Reduction Strategy (UAP, 1995), followed, a few months later, by the Government Programme for 1995-99, in which poverty reduction was identified as the priority (GOM, 1995). Both the Poverty Strategy and Government Programme underlined the importance of stable economic growth as the key to poverty reduction and advocated a continuation of the adjustment programme, featuring tight control of inflation and improvements in domestic resource mobilization, in much the same was as the SDA had before. In other respects, however, the strategy marked a significant change in direction. Three priorities were identified:

- **Improvement of rural living conditions.** This was to be achieved by providing incentives for increased production, through a reduction in the barriers to domestic trade and investments in economic infrastructure, using labour intensive techniques. Some targeted support for poor families, and women in particular, was envisaged, including the animal restocking, small investments in productive activities, rural extension and the promotion of drought resistant varieties.

- **Investment in human resources.** Budgetary priority was to be given to the expansion of primary education, basic health services, rural water supply and sanitation. Funding was to be derived from savings on defence and administration – though the Government Programme identified the strengthening of the public administration as a prioirty on par with the social initiatives – by increasing cost recovery from service users and the use of participatory approaches to reduce construction costs. Donors were encouraged to move towards a sector-wide approach, in order to properly integrate and subsequently reduce dependence on external financing. Ambitious targets were set for the expansion of education and health services – virtually the only quatitative targets in the Government programme – including the achievement of gross enrolment rates of 80% by 2000 and 60% coverage of basic health services by the same date.
- **Establishing an emergency response network.** As the wartime emergency programme was wound down in 1995, it was to be replaced with an emergency response network based on local level, national structures, thereby reducing reliance on international NGOs. Transfer mechanisms were to be rationalised and resources transferred to higher priority activities in education and health.

These policies represented a significant change in focus, towards rural areas rather than urban; in priorities, emphasising productive activity and investments in education and health rather than safety nets; and in method, towards greater reliance on market forces and the narrower formulation of state intervention. However, the Poverty Strategy was little more than a policy framework. Although an interministerial Working Group was established, this did not provide an effective mechanism for cross-sectoral coordination at an operational level. Nor was the strategy linked to a concrete action plan: operational planning was the responsibility of the individual sectoral agencies.

2.5 PARPA, the PRSP and the government programme for 2000-04

Preparation of a new poverty strategy began in late 1998, when the preliminary results of the 1996/97 Household Survey became available. Although a draft strategy was completed towards the end of the year, its approval by the Council of Ministers was delayed until April 1999 owing to concerns regarding the political implications of the survey results (see Section 6.1). The 'Action Guidelines' (MPF, 1999a) defined the Government's long-term policy objective as a reduction in the incidence of absolute poverty from around 70% in 1998 to under 50% by 2010 and laid out the broad elements of the Government's poverty reduction strategy for achieving this goal. These policy objectives were subsequently reaffirmed in the Government's Programme for 2000-04, approved by the National Assembly in March 2000, which placed the reduction of absolute poverty at the top of Government's policy agenda.

A more detailed Action Plan for the Reduction of Absolute Poverty (PARPA) was finalized after the elections in December 1999 (MPF 1999b). PARPA sets an intermediate objective of a reduction in the incidence of poverty to 60% in 2004 and goes on to present a detailed listing of components, reflecting the institutional separation of functional responsibilities, each with clearly defined objectives, most of which have quantitative targets for the period 2000-2004, together with a list of specific activities that will be undertaken and a set of annual and periodic monitoring indicators. Broad sectoral 'budget' allocations are identified, but these refer only to funds mobilised through HIPC initiative rather than global resource allocations. The action plan also consolidates a number of policy initiatives that were formulated at about the same time, including the National Population Policy, the Food Security Strategy, the National Strategic Plan to Fight STD/AIDS/HIV, the post-Beijing Action Plan and the National Integrated Social Action, Employment and Youth Programme. In these respects, the PARPA represents a major advance over the 1995 strategy, since the PARPA is clearly conceived as an operational instrument which provides a coherent framework for action focusing the global objective of poverty reduction.

The Government submitted PARPA with a brief introduction describing the planning process as the I-PRSP, rather than preparing a specific document to meet IMF requirements. External involvement in the formulation of PARPA and the I-PRSP was minimal. However, the presentation of the final version of the PARPA closely followed the IMF and World Bank's model, as subsequently laid out in the PRSP Guidelines (IMF and IDA, 1999) and was driven by HIPC deadlines. The planning process suffered as a consequence. Most of the work fell upon a small team in MPF's Planning and Budget Department and representatives from six key-Ministries' planning departments. There was little consultation outside this restricted group, though some effort was made to disseminate the results of the 1996/97 Household Survey and their policy implications in late 1998. There were also significant omissions in the programme; for instance, macro-economic policy issues and their implications for poverty reduction and growth were largely ignored. Moreover, the Plan was not based on an assessment of resource availability; it was merely assumed that the rather optimistic projections for GDP growth would generate sufficient resources.

To address these shortcomings, the Government established a consultation team, under PRSP technical working groups that included representatives from government, donors, civil society and the private sector, and will develop a consultation programme during 2001. MPF also disseminated Provincial Poverty Profiles and encouraged the provinces to prepare Poverty Reduction Action Plans. These are supposed to provide scope for a better differentiated analysis of poverty and strengthen provincial 'initiative in definition of its strategies and targets' and a focus for provincial level consultations (MPF, 2000: 15).

Although these are positive developments, consultations and the formulation of provincial strategies at this late stage could not significantly influence the national policies and strategies laid out in the full-PRSP. Since the Government was under pressure to finalise the full PRSP by March 2001, in order to meet the deadline for completion under HIPC, little time was allocated for consultations and to assimilate the results of this experience. Moreover, given the limited scope for independent action by provincial governments, the provincial poverty planning exercises tended to follow rather than lead national policies and programmes (see Section 4.5). Greater attention has been paid to the linking of PARPA's policy objectives and medium-term expenditure framework. However, these linkages remain weak, partly because sectors have no basis for costing their programmes, partly because the planning and financing programming exercises continue to be carried out separately. Inevitably, this raises doubts concerning the realism of the ambitious targets the PARPA sets out.

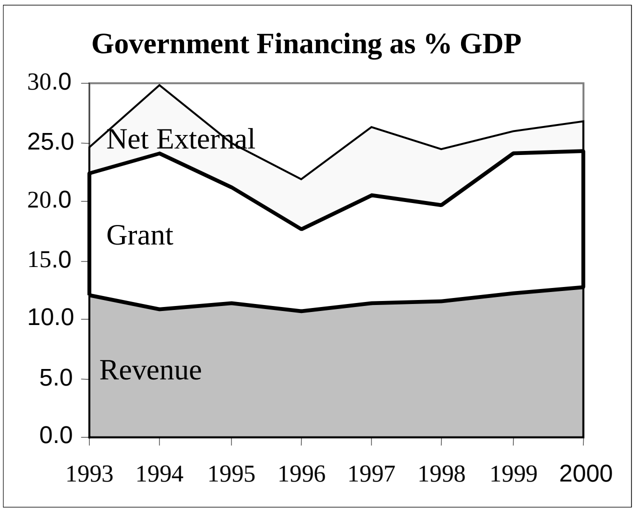
In terms of policy content, the 'Action Guidelines', PARPA and PRSP have all followed the broad policy framework identified in 1995. Emphasis continues to be placed on the central role of economic growth, investments in human capital and rural infrastructure in reducing poverty. Strategies for improvements in agricultural productivity continue to focus on improvements in market access, expansion of extension services and credit, though greater attention is given to increased use of agricultural inputs than in the past. In the health sector, STD/AIDS awareness and assistance for those infected also assume greater prominence. The social assistance programme – cut back following the 1995 strategy – is also to expand, both in terms of the number and range of beneficiaries. PARPA does refer to the need reduce 'regional asymmetries', though, as in 1995, this is seen as part of the decentralisation process rather than a problem of redressing inequalities in resource allocation and access to services. Little mention is made of measures to improve governance and strengthen participation in service management, though both the 1995 and 1999 strategies identify the participation is a means of reducing the cost of expanded service delivery.

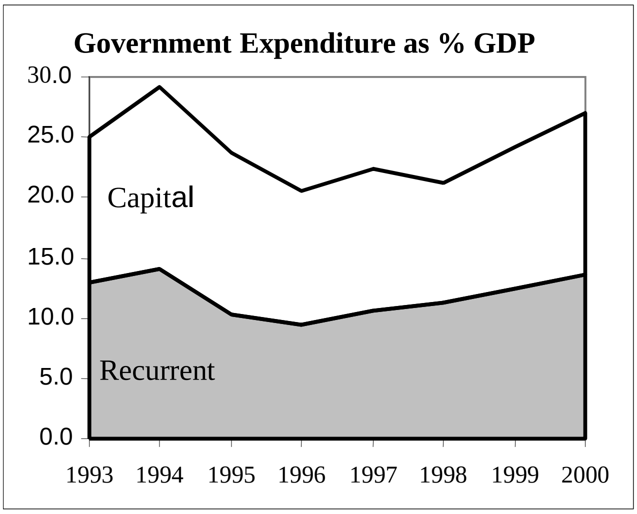
3 Public Expenditure and its Impact

3.1 Fiscal policy

When Mozambique launched its ERP in 1986, the low levels of domestic output and living standards and the demands of a wartime economy made it impractical to follow the orthodox adjustment strategy in which expenditures are aligned with domestic resource availability over the shortterm. Instead, the period from 1986 to 1992 saw a significant increase in public spending as a share of GDP[3] financed by a massive influx of aid, which covered over half of expenditures in 1991 as compared with just 12% in 1985. At the same time, efforts were made to curtail inflationary domestic financing, by gradually reducing domestic borrowing from the banking system, and increasing revenues through improved tax administration. Much of the increase in public expenditure was channelled through the investment budget, which grew from around 15% of total public spending in 1985 to almost 50% in 1991. Recurrent expenditures increased in real terms, though the growth of military expenditures, debt servicing and the wage bill more than offset the reduction in subsidies so that the share of recurrent spending allocated to goods and services dropped dramatically.

The end of the war in 1992 brought no immediate peace dividend. Indeed, as mentioned above, military spending increased from around 30% of recurrent spending in 1992 to 38.5% in 1994 to meet the costs of demobilisation. This period also saw increases in spending on rehabilitation and exceptional items, such as elections in 1994. As a result, total public spending rose sharply to nearly 30% of GDP in 1994, with the deficit before grants rising to 18% of GDP. Nevertheless, this increase in spending was covered by additional inflows of grant aid and net external borrowing. Consequently, Government managed to initiate repayments to the banking system even as spending increased.





Unfortunately, increases in public spending in the immediate post-war period coincided with rapid growth in monetary stock in order to finance overdraft facilities to the two state-owned commercial banks, used to finance unsustainable 'politically motivated' lending (World Bank, 1997: 86). Consequently, inflation surged from 35% in 1991 to around 70% in 1994. During 1995, the IMF voiced concern that such expansionary fiscal and monetary policies would lead the Government

[3] The GDP data used in this study are based on revised National Accounts estimates prepared by the National Statistics Institute in 1997, which replaced estimates prepared by MPF. Since NSI's GDP estimates are significantly higher than those of the MPF the two series are not directly comparable. Unfortunately, NSI's revised estimates are only available from 1992.

'off-track' in its adjustment programme. In response, the Government adopted a more deflationary stance. Recurrent expenditures were cut back to 10.3% of GDP in 1995 and 9.4% in 1996, below the level of revenues creating a positive current balance. A sharp reduction in aid inflows, associated with the winding down of the post-war and emergency programmes, led to a parallel reduction in capital expenditures so that, by 1996, total expenditures amounted to only 20.7% of GDP as compared with nearly 30% two years earlier. At the same time measures were taken to increase revenue collection, together with a tightening of monetary controls and the introduction of new monetary instruments following the partial privatisation of the banking system.

Box 1: Impact of HIPC

During the 1990s the Government had to finance high levels of external debt service, despite several rounds of debt rescheduling and debt relief during the 1980s and 1990s. At the end of 1998, the nominal debt stock stood at about $6 billion, $2.7 billion in net present value terms, equivalent to about five times the value of exports. Actual debt servicing amounted to $104 million in 1998, equivalent to 24% of revenues, and was programmed to increase to $172 million, nearly 33% of revenues, in 2000.

In 1999, Mozambique reached completion point under HIPC and agreement on Enhanced HIPC was reached in 2000, with a view to reaching completion in 2001. Under these arrangements, debt stock NPV will fall to $761 million – and may fall to $496 million when agreements are reached on voluntary forgiveness – and programmed debt service for the 2000-05 period will drop from just over $1 billion to $318 million, with the debt-revenue ratio to 9.4% in 2000 and 5.8% in 2005. Most of the funds released through HIPC debt relief will be allocated to poverty reduction programmes identified in the PARPA. Of the estimated $67 million of HIPC related savings in 2000, $45 million was specifically allocated to PARPA programmes in the 2000 Budget (IMF, 2001).

Although these policies were successful in curtailing inflation, which dropped to 16.2% in 1996 and 7.4% in 1997, the restrictions imposed on public spending sparked considerable controversy. A journalist, Joseph Hanlon, emerged as one of the most vocal critics, arguing that the imposition of an orthodox adjustment programme at this time effectively blocked the Government's reconstruction efforts (Hanlon, 1996). Such criticisms were frequently repeated in the Mozambican press and also found some resonance in the World Bank's resident mission, which tended to support a more expansionary policy, accepting slightly higher inflation as the necessary cost of higher economic growth. Nevertheless, the Government – following the IMF's lead – continued to give priority to macro-economic stabilisation, arguing that this was a pre-condition of sustainable growth and as such was consistent with its poverty reduction goals. Once macro-economic stability was restored the Government gradually relaxed its fiscal policy, though remaining within the limits negotiated with the IMF. Total expenditure recovered to 25.6% of GDP in 1999, much of the increase being accounted for by growth in recurrent expenditures, the current balance was gradually reduced and turned negative in 1999.

Preliminary results for 2000 indicate a sharp increase in expenditures to nearly 30% of GDP, largely as result of increases in poverty reduction spending, outlays on the recapitalisation of the partially privatised commercial banks and a substantial pay rise in the public sector. This was met by increased inflows of external assistance, including the first HIPC debt-relief funds (see Box 1), but the Government also made draw-downs on deposits with the banking system, its first recourse to domestic financing since 1993. The World Bank voiced some concern regarding this 'weakening control of expenditures', arguing that continued efforts were needed to adjust expenditures in line with resources over the medium-term (World Bank, 2001: 49). The IMF, on the other hand, took a more permissive stance when recommending approval of the PRGF, noting that two thirds of the programmed short-term increase in non-interest current and capital expenditure – from 23.7% of

GDP in 1999 to 28.3% in 2001 – will finance increased spending on poverty reduction programmes identified in the PRSP. Nevertheless, IMF continues to stress the importance of increasing revenues over the medium-term so as to cover planned increases in recurrent spending and gradually reduce dependence on external financing (IMF, 2001).

3.2 Revenue and revenue incidence

Following a sharp rise in tax revenues in the early stages of adjustment, tax revenues' share of GDP stagnated at around 11% during the early 1990s. A package of reforms aimed at increasing revenue yield was launched in 1995, starting with the restructuring of customs administration and reduction of duties, followed by reductions in profit and income tax rates in 1998 and the replacement of a turnover tax with VAT in June 1999. The early results of these reform measures are encouraging, with revenue yields rising to 12.7% of GDP in 2000. As tax administration is improved yields are expected to rise by about 0.5% of GDP a year to 14.7% of GDP in 2005. Over this period, the structure of revenues is expected to change significantly, with the burden of taxation shifting from imports to domestic transactions, while the expansion of the formal economy is also expected to allow some increase in taxes on income (see Table 5).

Table 5: Structure of Revenue, %

	Actual			MTEF	
Compenent	**1985**	**1990**	**1995**	**1999**	**2005**
Tax	75.2	88.0	91.3	92.0	88.4
Tax on Income and Profit	18.5	20.0	16.6	13.5	16.5
Tax on Goods and Services	28.6	51.7	47.7	57.6	57.2
Tax on International Trade	24.8	12.0	24.0	17.8	10.5
Other	3.3	4.3	2.9	3.1	4.2
Non-Tax	24.8	12.0	8.7	8.0	11.6
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source : MPF

One of the central objectives of the reform programme is to broaden the tax base. At present, the rural population pays few taxes, other than indirect taxes on export crops and consumer goods. Consequently, the tax burden falls disproportionately on the formal, urban economy, which is taxed at 14.8% of value added in 1999 as compared with a burden of 11.3% for the economy as a whole (World Bank, 2001: 58). Within the formal economy, moreover, the widespread use of tax exemptions – for foreign and domestic investment, investments in the Zambezi valley, sectors such as energy, sugar and tourism and particular groups such as miners in South Africa, political parties and members of parliament – means that the tax burden falls mainly on medium-scale enterprises. The Government is currently reviewing the tax incentive regimes so as to determine their cost-effectiveness and has introduced administrative controls, such the clearer definition of industrial free zones, in order to reduce scope for abuse.

The implications of these policies for the social incidence of taxation are poorly understood. Basic foodstuffs are exempted from VAT so as to protect the poor, as are agricultural inputs which were identified as an important element of the Government's poverty reduction strategy. On the other hand, the relatively small – and in recent years declining – proportion of revenues generated from taxes on income and profits, coupled with widespread evasion and the rising share of revenues generated through taxes on consumption, all point to a regressive tax regime.

3.3 Resource allocations

Analysis of resource allocation policies is hampered by the lack of consistent, adequately disaggregated time series on sectoral expenditure.[4] However, the limited information that is available confirms that, since 1995, the Government has allocated an increasing share of resources to sectors identified as priorities in its poverty reduction strategies, notably education, health and rural infrastructure. Although this was facilitated by reduced outlays on demobilised soldiers, permitting a significant reduction in defence spending without materially affecting the armed forces, and reductions in debt interest payments, owing to debt rescheduling, the process was not entirely painless. During the period of fiscal austerity, from 1995 to 1996, spending on non-priority sectors was effectively capped so that spending on priority sectors could be increased in real terms.

As a result of these policies, education's share of recurrent spending increased from 9% in 1994 to nearly 20% in 1999, whilst health's share increased from 4.2% to 8.2% over the same period. This represents an increase in per capita recurrent spending on education from $1.87 to $5.48 and an increase in per capita spending on health from $0.93 to $2.26. Spending on rural infrastructure, mostly roads, also increased rapidly from just 11% of total domestic financing of the investment budget – and probably a similar proportion of external financing – in 1993 to around 35% in 1998, then dropping back to 26% in 1999. Investment spending on education, health and rural development also increased from 1994, though these sectors' share of domestic financing of investment decreased owing to substitution with external grant financing.

Data for 1998 to 2000 provides a more complete picture of the changing pattern of resource allocations (see Table 6). The trend of increased spending on education and health is confirmed. Recurrent spending on social security is also shown to be increasing, in line with the expansion of safety nets foreseen under the PRSP (see Section 2.5), while significant increases in investment spending on agriculture and rural water supplies have been budgeted in 1999 and 2000. There were also increases in spending outside the priority sectors, notably as a result of investments in general public services and increases in spending on security and public order, reflecting increases in police numbers. As in the immediate post-war period, the reallocation of resources following 1999 has been facilitated by further reductions in spending on debt servicing. The only functional category which has seen a significant drop in its share of spending over this period is the transport sector, largely as a result of the scaling back of the road rehabilitation programme following the completion of most of the post-war reconstruction and transition to routine maintenance spending.

Unfortunately, budget data does not readily allow the analysis of sub-sectoral resource allocations, so as to identify, for instance, the expenditures on primary as opposed to secondary education. This has emerged as something of a problem in tracking the Government's application of HIPC funds, which should be assigned to agreed poverty reduction expenditures. As an interim measure the PARPA and budget documentation identify the object of HIPC expenditures as separate items and report actual expenditures on programs specified in the PARPA in budgetary documentation. Information on these programs will be included in the quarterly budget execution report, beginning with the first quarter of 2001. Over the longer-term, there is clearly a need for more detailed disaggregation of expenditure information so as to permit routine monitoring of expenditure allocations at the sub-sectoral level.

[4] The principal weaknesses in the expenditure data series are: i) consolidated public sector accounts are only available for 1998, previous years' outturn data is based on estimates prepared by the MPF; ii) external assistance that does not pass through the tresury system is not covered in the outturn data Accounts The majorPrior to 1998, when expenditure classifications were revised, sectoral allocations for the recurrent budget were based prior to the introduction of new budget classifications in 1998.

Table 6: Sectoral Resource Allocations, 1998 to 2000

	Recurrent			Investment			Total		
Funtional	Outturn 1998	Budget 1999	Budget 2000	Outturn 1998	Budget 1999	Budget 2000	Outturn 1998	Budget 1999	Budget 2000
General Public Services	21.5	20.3	18.9	8.3	12.2	14.3	13.5	16.3	16.7
National Defence	7.7	6.9	7.5	0.7	0.5	1.5	4.0	3.8	4.7
Security and Public Order	14.3	13.6	15.3	1.3	1.0	1.2	6.0	7.5	8.6
Education	19.1	19.1	21.4	11.1	9.3	15.1	13.9	14.3	18.4
Health	7.5	9.9	12.8	20.1	13.7	16.1	14.1	11.7	14.4
Social Security and Assistance	9.9	10.8	12.9	0.5	0.2	0.6	6.0	5.7	6.6
Habitation and Collective Services	0.6	0.0	0.0	4.7	13.5	14.1	2.9	6.5	6.7
Agriculture and Fishing	2.2	1.0	1.8	4.3	8.1	13.2	2.8	4.4	7.2
Transport and Communication	0.6	0.6	0.7	28.8	26.2	18.9	15.2	13.0	9.3
Other	16.6	17.9	9.6	20.0	15.3	4.9	21.6	16.7	7.4
Total	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**

Source : MPF

It is also difficult to gain an accurate picture of the regional allocation of resources. This is largely because of the substantial share of resources managed by central government (about 70% of recurrent expenditures and over 90% of domestic investment financing in 1999), some of which is spent at provincial level through vertical sector programmes. Estimates based on provincial government spending and reported ODA by province (accounting for just over one third of total ODA), suggest that there a significant regional inequities in the structure of spending which tend to favour the far south of the country (see Table 7). Although such incomplete data should be interpreted with caution, it does reveal the importance of external financing at the provincial level, with reported donor funds dwarfing provincial government spending in some provinces with a substantial donor presence.

Table 7: Provincial Government and ODA Provincial Spending 1997, in US$

Province	Incidence of Poverty	Per Capita Provincial Expenditure	Per Capita Provincial ODA
Niassa	**70.6**	11.47	**10.3**
Cabo	57.4	9.34	**6.4**
Nampula	68.9	**6.26**	**8.1**
Zambezia	68.1	**5.88**	**5.7**
Tete	**82.3**	**8.6**	42
Manica	62.6	10.31	**14.9**
Sofala	**87.9**	12.91	27.5
Inhamban	**82.9**	9.23	**3.8**
Gaza	64.7	10.29	25.3
Maputo	65.6	11.8	15.3
Maputo City	47.8	16.72	43.4
Mozambique	**69.4**	**9.14**	**18.5**

Source : MPF

Since the war the regional pattern of donor spending has changed markedly. This is largely because, with the restoration of security in rural areas, donors have expanded programmes in the central and northern provinces – especially Niassa, Nampula, Zambezia and Tete – whilst scaling back programmes in the capital and some of the southern provinces. There has been a tendency for donors to focus on a single province – the Dutch in Nampula, the Danes in Tete and the British in Zambezia – carving up the country in what has been described as a second Berlin Conference. In this process, some provinces have clearly come off worse: Inhambane and Cabo Delgado, for instance, have seen the level of external assistance fall in recent years.

3.4 Forward projections and the PRSP

The resource mobilisation scenario presented in the 2000 MTEF assumes that the economy will grow by 8 and 9% a year in real terms up to 2005, revenues will increase by 0.5% of GDP a year, domestic borrowing will provide an additional source of domestic financing – through the emission of treasury bonds – and external financing will remain constant in real terms (MPF, 2000). On this basis, the MTEF projects a gradual reduction in external dependence (from over 50% of total financing in 1999 to only 36% in 2005) and a decline in public spending as a share of GDP (from 25.7% to 23.2%), while total public spending is expected to be 37% higher in real terms in 2005 as compared with 1999.

The IMF has argued that these projections are 'excessively optimistic' (IMF, 2001: 7). Certainly, achievement of these targets assumes substantial inflows of private and public capital inflows in order to sustain investment levels in excess of 25% of GDP, since domestic saving, having risen from under 10% of GDP in 1997 to around 15% in 1999, is expected to stabilise at about 12% of GDP over the medium term. The external resource needed to meet this short-fall will be increasingly difficult to mobilise in a competitive international market for FDI and aid. Furthermore, no provision is made for periodic climatic shocks, such as the droughts of the early 90s and the floods of 2000, which can have a significant impact on output. Some allowance for short-falls in resource availability is made, through a reserve expenditure allocation rising to about 10% of total expenditure in the outer years of the scenario, but no low case scenario has been prepared.

Despite the optimistic expenditure growth projections, the MTEF does not project significant growth in the priority sectors' share of total expenditure. Indeed, energy and education are the only priority sectors in which a sustained increase in expenditure share is foreseen over the 2000 to 2004 period, with education's share rising from 15.8% of total expenditure to 17.6%. For other priority and non-priority sectors, the share actually drops as the programming reserve increases, with the largest reductions in sectoral share registered in agriculture (from 7.6% to 2.5% of expenditure) and public works. By providing for a substantial programming reserve, the final decision regarding resource allocations is postponed until more reliable resource envelope forecasts are available, whilst the sectors are provided with internal and external financing limits as the basis for forward planning.

Although the team preparing the PARPA were consulted in the formulation of the 2000 MTEF, there is no functional linkage between the poverty reduction and expenditure plans. The poverty reduction targets set out in the PARPA were not fully costed, though preliminary estimates of sectoral expenditures have been generated in the health and education sectors through sector programming exercises (see Section 5.4). Nor does the PARPA provide clear indications of the appropriate allocation of resources between priority sectors. The budget information presented in the PARPA refers only to the additional financing made available through the HIPC debt relief and its allocation to priority activities.

The I-PRSP indicated that improved costing of the poverty reduction strategy and closer linkages to the MTEF process are a priority for 2001, though it is unclear what was actually intended. Certainly, the MTEF appears to have stalled in the lead up to the 2002 budget exercise and as yet little progress has been made in costing out of sector programmes, partly because of lack of detailed information and partly because of lack of analytical capacity in sectoral and core institutions.

Further progress is likely to depend on the successful implementation of the Public Expenditure Review in late 2001, which will provide an opportunity to address these issues systematically.

4 The Institutional Framework

4.1 Public sector reform

Mozambique inherited an extremely centralised and hierarchical state apparatus from the Portuguese, characteristics that were reinforced under central planning and then enshrined in the 1990 Constitution. According to the Constitution, policy is determined centrally by the Council of Ministers and executed by line Ministries and local State bodies. Ministries are represented by Directorates at the Provincial level, and key service delivery sectors, such as education, health and agriculture, also have District representatives, so that a direct line of command can be traced from national to field level. Following the principle of dual subordination, Provincial Governors and District Administrations have administrative oversight over sectoral directorates, but routine administrative decisions tend to be referred upwards along the sectoral line for decision.

Paradoxically, in this centralised bureaucracy, central government faces difficulty in enforcing policy and administrative decisions, in part because of difficulties in communicating with civil servants dispersed in districts, in part owing to poor compliance, as recent reforms have sought to reduce bureaucratic controls and have thereby threatened the interests of gatekeepers within the civil service. Although rules and legislation may not be enforced, civil servants are reluctant to undertake activities that are not foreseen in the legislation or administrative manuals. As a result, initiative is stifled. There is no systematic and routine performance monitoring across government (see Section 6.3) and where such information is collected, it is rarely used to support personnel or resource management decisions.

Personnel costs absorb a large part of agencies' budgets – the ratio of personnel expenditures to spending on goods and services was 0.83 for central government and 0.32 for provincial government in 1998 – leaving limited resources for operational activities or field work. Many institutions depend on donor projects to finance their work plans, posts for some senior technical personnel and their development programme. In this context, public institutions can be characterised as rule bound and unresponsive to the needs of clients, with few incentives to improve performance and limited resources to do so even should they wish to.

During the early stages of adjustment, public sector reforms were primarily aimed at reducing pressures on the public expenditures, by cutting subsidies to public enterprises and privatising these concerns, slowing growth in the public sector wage bill, introducing cost recovery mechanisms for some services and creating space for alternative private sector service providers in education and health. From the mid-1990s, attention turned to improvements in the efficiency and effectiveness of public sector operations. In this context, the 1995 Government Programme identified civil service reform and decentralisation – including both the devolution of competencies to local government and the deconcentration of functions within line Ministries – as pillars of the public sector reform strategy.

While hierarchical, ministerial structures were retained for core functions, the Government has experimented with organisational reforms through the creation of 'autonomous' agencies, in some cases to protect some institutions from political interference, as in the case of National Statistics Institute, in others to provide greater managerial flexibility, as in the case of the Eduardo Mondlane University, and the National Roads Administration. Relations between the State and these autonomous bodies are managed on the basis of 'programme contracts' which specify the outputs to be provided by the institution and financial support to be provided from the State Budget. These contracts – first applied as a framework for State financing of public enterprises from 1995 – still lack an appropriate legal framework and the implications of 'autonomous' status are unclear: some autonomous agencies, such as the NSI, continue to apply government-wide pay-scales, for instance, while others – notably the University – offer higher rates of pay. A recent study of Mozambique's public sector reforms, questioned the suitability of this 'agency' model in Mozambique, largely on account of the poorly defined accountability mechanisms and the difficulties of adopting a performance oriented approach in a rule-bound administrative culture (World Bank and GOM, 1998). Nevertheless, the study indicated that the number of these agencies was likely to increase in the near future as Ministries establish agencies to implement policy and provide services, possibly including hospitals and schools.

In 1998, the Government published a National Policy on the Modernisation of Public Administration which anticipated a continuation of the on-going reforms – focusing on the 'vectors' of human resources management, institutional reform and rationalisation of administrative procedures – whilst simultaneously addressing the more fundamental concerns of the professionalisation of the civil service, changing attitudes and behaviour, strengthening policy making and implementation capacity, and improving governance and 'dialogue' with civil society (GOM, 1998). However, the reform programme has only recently got underway, with the creation of an inter-ministerial Commission, chaired by the Prime Minister, and a technical support unit in mid-2000. The intention is now to kick-start reforms by identifying a number of quick-win measures aimed at cutting red-tape and building on sectoral initiatives. At the same time, government-wide functional reviews will be undertaken, aimed at streamlining the administrative structure and focusing public agencies' activities on core functions, taking into account a sustainable level of financing defined in the MTEF.

4.2 Civil service reform

Early civil service reforms were intended to curtail growth of the public sector wage bill. Unlike the case of many other adjusting countries this did not entailed layoffs of civil servants, largely because the civil service was already relatively small by international standards (estimated at 105,000 in 1990, equivalent to about 7 per 1000 habitants), 90% of these were deployed outside central government and the majority were employed in service delivery functions (Fallon and da Silva, 1994: 85). Indeed, the number of civil servants on the payroll has steadily increased since the end of the war, with recruitment of additional teachers, health workers and, in recent years, policemen. Efforts were made to improve personnel management, by establishing centralised controls on recruitment, promotion and a centralised payroll, leading to the elimination of ghost workers on the education and health payrolls (Oliveira and de Barros, 1998). However, growth of the wage bill was mainly controlled by capping salary increases, leading to an erosion of base salaries in real terms throughout the 1980s and much of the 90s. According to Fallon and da Silva's calculations, base salaries of lower level technical staff dropped by about 40% in dollar terms between 1980 and 1990 to around $70 month. Salaries were increased in 1990, following a series of public sector strikes, but continued to fall in realterms thereafter, so that, by 1996, teachers and nurses salaries had dropped to around $50 month. By 1998, it was estimated that two thirds of civil servants lived below the poverty threshold (World Bank and GOM, 1998). At the same time, adjustments in base salaries gradually reduced wage differentials within the public sector, with compression ratios dropping from 19:1 in 1990 to 9:1 in 1996.

These policies provoked a flight of staff with marketable qualifications and experience, first to donors and NGOs and then to an expanding private sector, and thereby aggravated an acute shortage of qualified staff in the public sector. MPF is better off than most institutions since it offers substantial salary supplements nevertheless, only 7% of its staff are educated to university level and 33% to secondary level (MPF, 1999): the corresponding figures for the police force are 0.3% and 5%, with 47% having no more than six years of schooling (UNDP, 2000: 41). It has also proved increasingly difficult to recruit highly qualified personnel from the limited pool available: there are about 4 university graduates per thousand habitants and less than a five hundred new university graduates and two thousand secondary school graduates a year.

For the Government, low levels of civil service pay are also the fundamental cause of low public sector productivity, corruption and the erosion of civil service ethical standards. Although there is no systematic data available, anecdotal evidences suggests that use of informal charges and misappropriations of materials in service delivery units has become widespread since the introduction of the Economic Reform Programme (Hanlon 1992 and 1996). Inevitably, this has an impact on both the access to and the quality of services provided.

Pay revisions in 1998, 1999 and 2000 sought to combine substantial across-the-board salary increases, benefiting service delivery personnel, with gradual decompression of salary differentials so as to provide adequate incentives for higher level personnel. The pay and career structure was totally revised in 1999, providing for a simpler structure, more transparent promotion procedures and incentives for those working in rural areas. As a result, the base pay for teachers and nurses has risen to around $100 per month and the compression ratio restored to around 20. Over the longer term, the civil service reforms anticipate the introduction of performance related pay which is expected to provide further incentives for personnel.

4.3 Decentralisation policy

In 1994, just before the first multi-party elections, the National Assembly enacted a radical reform of local government, providing for autonomous urban and rural municipalities, headed by an elected official responsible to an elected assembly, with a wide range of competencies, including education and health care, water supply and roads. After the elections, however, the Government backtracked, repealing the law in 1996 and replacing it with a more cautious programme of decentralisation, in which autonomous municipalities were created in 23 cities and 10 of the 68 towns – including some, such as Metangula, which were little more than villages with a population of a few thousand. Rural areas were specifically excluded, though provision was made for the gradual extension to 'villages' at the level of Administrative Posts, leaving almost two thirds of the population under direct state administration.

The Government's *volte face* on decentralisation is best understood in terms of political and electoral considerations. There is clearly a split within Frelimo between those favouring decentralisation – who held the upper hand during the Fourth Congress in 1983 and ten years later when the first decentralisation law was passed – and those favouring a more cautious approach in which concerns regarding the integrity of the State loom large (Egero, 1990: 105; Soiri, 1998: 5). Undoubtedly the fact that Renamo managed to win a majority in the central provinces and many rural areas in the north in the 1994 elections, raising the spectre of the opposition gaining control of rural municipalities and the fears about political fragmentation of the State, strengthened the hand of the centralising faction. It has also been argued that rapid decentralisation might undermine the State's authority and lead to a deterioration in service provision owing fragility of public administration in rural areas (Graham, 1993: 412). Whatever the motives, further devolution of authority to local government, including the logical next steps of autonomous government at the district and provincial level, is clearly off the agenda. The 2000-04 Programme indicates that the Government intends to consolidate the existing urban municipal governments, making no reference to new initiatives other than measures to accommodate traditional authorities within administrative structures at the local level.

This stalling of the decentralisation process has important implications for public sector management and the design of poverty reduction policies. Firstly, progress in the decentralisation of responsibility for service delivery and opportunities for participation in the management of public services will be determined by sectoral deconcentration rather than an integrated programme of devolution across government. Secondly, the creation of a two tier structure of local government, with autonomous urban municipalities co-existing with state administration of rural areas, has raised questions regarding the legitimacy of the administrative structures at Provincial and District levels and blocked reforms of these levels. Lastly, the lack of political commitment to decentralisation and the ill-defined status of provincial and district administrations have discouraged agencies from deconcentrating functions, other than on a pilot basis. Indeed, the deconcentration of state functions, which figured prominently in the 1994-99 Government Programme, gains only a passing reference in the 2000-04 Programme, suggesting ambivalence to even this limited form of decentralization.

4.4 Municipal government

The basic legislation for urban municipalities, enacted in 1997, granted the 33 municipalities financial and administrative autonomy, provided for an independent tax base, derived from a head tax, a share of some national taxes, and fees for local services, complemented by a system of mandatory inter-governmental transfers. It anticipated a gradual transfer of competencies over a wide range of basic services, including primary education and health services and water supply.

The decentralisation process did not get off to a propitious start. Renamo boycotted the 1998 Municipal Elections, and, while some independent candidates were elected, Frelimo took control of all the Municipal Assemblies. More significantly, only 14% of those registered actually voted. Various explanations of the poor turnout have been offered, ranging from confusion regarding the purpose of municipalities, through concerns regarding the implications of or sympathy for Renamo's boycott, to more abstract notions regarding the informalisation of the political process (Serra, 1998). None of them are particularly convincing, especially in the light of the high turnout for national elections in 1999. Nevertheless, the boycott and low turnout had important implications: donors, whose financial and political support was essential to the success of the experiment, questioned the legitimacy of the new municipalities and proved reluctant to provide them with the financial and technical support they needed.

One of the first challenges facing the municipalities was to raise the resources needed to improve basic urban services. Since current transfers from central government are capped at 3% of tax revenue, increases in current expenditure must be met by increases in local tax revenues and service charges. Ambitious plans were set out for 1999, with the municipalities anticipating that 78% of their revenues would be generated locally (MPF, 1999). Preliminary results suggest that most of the municipalities failed to reach their targets, with the largest five cities raising just 38% of revenue from local taxes and service charges in 1999 and 31% in the first six months of 2000 (Brockman and Woytla, 2000). As a result the municipalities remained heavily dependent on fiscal transfers and the municipalities' share total public spending was just over 3% – based on the optimistic spending targets indicated in their budgets. Much of expenditure was allocated to administrative functions, including 40% spent on staff, and a substantial share on payments to councillors in the smaller municipalities, leaving few resources for the expansion of services.

The second challenge facing municipalities has been to establish space for independent action. Although municipalities automatically assumed responsibility for urban services, their creation coincided with measures to privatise urban water supplies in the major cities, taking one of the major services outside their direct control. Moreover, no progress has been made in the transfer of additional competencies – such as primary education and health care – from central government. The basic legislation set no timetable for this process, nor did it lay out the procedures and criteria for the selection of the services to be transferred or the municipalities to participate. Furthermore, since no provision for an expanded range of municipal functions was made in the system of inter-governmental transfers, the transfer of competencies would have to be financed by reducing the sectoral ministries' allocations. Consequently, sectors have been reluctant to discuss how the transfer should proceed and, although proposals regarding the transfer of competencies have been put forward, there is little prospect of the necessary legislation being enacted in the near future. In the case of the City of Maputo, the only municipality that was supposed to assume the full range of municipal functions when it was established, this has led to considerable confusion. Since a Provincial Governor has not been appointed and there has been no separation of functions between the State and the Municipality, the Mayor occupies both functions by default, operating on the basis of two budgets, one covering state functions and another covering those of the municipality.

Clearly, the municipal decentralisation programme has failed to bring about significant changes in the way that key services in the poverty reduction programme are managed. Municipalities' responsibilities are limited to the basic urban services that they provided before the Municipal Assemblies were created and are unlikely to be extended in the future. Under these circumstances, the prospects for further devolution in rural areas seem poor indeed.

4.5 Provincial government

To speak of Provincial *Government* in Mozambique is something of a misnomer. Owing to the principle of dual subordination, the constitutional requirement for Provinces to implement central government directives and their limited financial discretion, there is little scope for provinces to define and implement policies. Instead, their role is largely administrative and in the nebulous sphere of inter-sectoral co-ordination.

Provincial Government's aggregate expenditure limits are determined centrally, and financed by administrative transfers from the Central Treasury. Within these broad limits, MPF also sets allocations for key sectors. These expenditure limits were first introduced as a means of capping expenditures in areas where there had been poor expenditure control, covering sectional allocations for education and health – following the discovery of large numbers of ghost workers – and allocations for transfers (mainly pensions) and jails. With the introduction of Integrated Sectoral Programmes, additional sectoral limits were set for agriculture and the judiciary, so as to ensure compliance with the overall limits for these sectors. As a result, in 1999, Provincial Governments were free to allocate only 11% of their total recurrent budget, which had to be shared between the remaining twenty or so Provincial Directorates. Furthermore, since personnel costs absorb around 60% of the recurrent expenditure, the room for manoeuvre was negligible.

In the mid-1990s, following the preparation of the National Reconstruction Plan, MPF sought to promote decentralisation by increasing the Provinces' share of internal investment financing from 8% in 1994 to 17% in 1997 and introducing a Provincial Public Investment Programme. However, these initiatives coincided with the period of financial retrenchment and so, even though the Province's share of resources increased, allocations actually declined in real terms. Further cuts in the Provinces' allocation followed in 1998, dropping to about 6% of total internal financing, largely to accommodate increases in spending on sector programmes at the central level. Restrictions were introduced regarding the sectoral application of these resources (see Box 2).

Given the limited scope for autonomous action at the Provincial level, it has proved difficult to define a role for provincial institutions. Some Provincial Governors have sought to carve out a policy function by preparing strategic plans, first in Sofala in 1996 and then in Niassa and Zambézia. These are supposed to guide central government interventions and promote investment by donors and the private sector. MPF has also tried to strengthen the Province's coordinating and operational planning functions by introducing a Provincial Economic and Social Plan in 1997 and providing guidelines on strategic planning in 1999. These initiatives have been followed up, under the 2000 Poverty Reduction Strategy, with instructions for Provincial Governments to prepare Provincial Poverty Reduction Plans. The plans are supposed to identify local poverty reduction priorities and operationalise the national plans by generating provincial variations on the national strategy. The implication is that the Province can provide a basis for the regionalisation of policy and, at the same time, make the centrally defined policies more responsive to the needs of the poor.

While it is too early to condemn this approach, it is fair to say that its chances of success are limited. Certainly, the Provinces – with an average of almost one and a half million inhabitants – are hardly close to the population and are an unlikely vehicle for responsive planning, particularly where there is no formal consultative or representative body in place. More importantly, while provincial planning exercises strengthen the Provinces' capacity to negotiate with central government, they do not alter the balance of power: resources continue to be allocated by central government and the programmes dictated at that level, leaving it to provinces to make operational decisions.

Box 2: Do Sector Programmes centralise?

One of the criticisms levelled at the Mozambican experience of Sector Programmes is that they have led to a (re)centralisation of decision-making. Introduction of Sectoral Programmes has curtailed the Provincial Government's discretion in allocating resources across sectors and financing small-scale investments in education, health and agriculture. The internal financing commitments made to donors in support of the sector programmes may also have contributed to a reduction in the funds available for provincial investment budgets. It is also true that the centralisation of the budget process has brought the sectoral Directorates under closer scrutiny of the central Ministry and thereby reduced their scope for autonmous action and ability to respond to unforeseen needs. In the education sector, for instance, provincial personnel have complained that they no longer have access to provincial investment budgets which used to provide quick access to financing for small-scale investment and rehabilitation (Helling, 1999).

On the other hand, the Sector Programmes have tended to be fairly participatory in their approach, involving Provincial Directorates in programme design and in operational planning much more than was formerly the case. They have also provided for additional transfers to Provincial Directorates: $55,000 was transferred to provincial sub-accounts for each Provincial Directorate of Agriculture in 1999 and $180,000 in 2000, many times the provincial governments allocation for sector operating costs; deconcentrated allocations have also be provided in the education and health sectors.

On balance, therefore, the sector programmes would appear to have favoured provinces, financially at least, and have probably increased the flow of resources to districts too. However, Sector Programmes have reinforced vertical structures and thereby undermined horizontal, intersectoral planning that is the Provincial Government's purpose. MPF guidelines on Sector Programmes and the introduction of strategic planning and poverty reduction planning exercises at provincial level have sought to counter this tendency, by requiring Provincial Directorates to consult other institutions in the preparation of their operational plans and prepare a consolidated provincial strategy. It remains to be seen whether these administrative measures will actually influence the sector programmes.

It is clear that fundamental changes are need in the structure of Provincial Government, including the definition of specific competencies for Provincial Governments and the attribution of discretionary resources, before they can play a meaningful role in public sector management and regional development. Although the Ministry of State Administration has promoted some discussion on the role of Provincial Governments, these have focused on the Province’s internal organisation and fail to resolve the underlying problems of inter-governmental relations, such as dual subordination (MAE, 1998). Indeed, this principle continues to feature in the parliamentary proposal for constitutional reform disseminated in 1999. In these circumstances, there is little prospect of the role of the Province being clarified in the near future.

4.6 Districts

Mozambique’s 128 districts provide a much more plausible vehicle for the introduction of planning mechanisms that respond to local needs and the needs of the poor than the Province. Though still large – the average district covers an area of 6,000 km^2 with a population of 105,000 – district administrators have close relations with communities and are sufficiently close to the field level to oversee service delivery.

Two pilot initiatives launched by MPF in 1997, one in Manica and another in Nampula, have demonstrated that the district planning exercises can encourage community participation in decision making leading to changes in service delivery that have a significant impact on communities at little cost. Examples include the reassignment of female teachers to areas within districts which have low female enrolment and the reassignment of extension workers away from forest reserves. Although participatory planning need not entail additional resources, motivation tends to improve when combined with investment funds for low-cost public works. Such local investment funds, managed through Provincial Finance Directorates, and co-ordinated with the respective Provincial sectoral directorates, have proved an effective means of responding to local concerns. Communities have been encouraged to overcome a culture of dependence and subservience to the State, questioning the wisdom of public interventions. Based on this experience, MPF has prepared District Planning Guidelines and is currently negotiating financing for an extension of these programmes to other provinces (MPF and MAE, 1998).

MPF’s initiative is, in many respects, an attempt at decentralisation by stealth, in the hope that the cumulative impact of successful experiments will lead to broader institutional changes that can formalise a role for the district in bottom-up development planning. It is not intended that this should replace traditional top-down approaches, but merely provide some space for local initiative. Unfortunately, the scope for such initiatives is limited within the existing institutional framework. Three fundamental problems arise.

The first relates to the role of the District Administrator. Although the Ministry of State Administration advocates a developmental role, it simultaneously promotes a *dirigiste* model of local administration, in which the Administrator’s principal function is to enforce legislation and control social and economic agents, as exemplified by its guidelines for District Administrators (MAE, 1997). This is incompatible with the proposed participatory and consultative approach to local development.

The second lies in the absence of formal participatory – let alone representative – bodies at the District level. Although MPF’s Guidelines recommend the formation of consultative bodies, including community representatives, District Administrators are under no obligation to convene such bodies or take their recommendations into account when they do. Indeed, at the Ministry of State Administration’s insistence, references to permanent consultative bodies with defined competencies which might challenge the Administrator’s authority were cut from the document. The debate on local governance has, instead, focused on the role of ‘traditional authorities’ –

community leaders claiming legitimacy through kin-based political structures and inheritance. Although the legitimacy of these leaders is by no means uncontested, both in the realm of political ideology and at the community level, the Government has sought to develop their role in local administration, social development and resource management (West and Kloek-Jenson, 1999). Legislation giving 'traditional authorities' a formal role in local development and creating consultative councils at the district level was approved in 2001. In a sense, the restoration of the role of 'traditional leaders' is seen as a legitimate alternative to formal representative, democratic structures.

The third problem relates to the financing of local development. At present, districts receive a small transfer that covers recurrent costs of the administration, while all other services are financed through the Provincial Government and Provincial Directorates. Districts raise local revenues, mainly from fees, but these averaged just $17,000 in 1998 (MPF, 1999). Considerable variations in the level of district revenues suggest widespread under-reporting. Additional resources could be raised by updating the revenue base and providing incentives for revenue registration, as through partial matching grants. Ultimately, however, little progress is likely to be made unless additional funding is provided through central government to finance local initiatives. Donor financing can resolve this problem on short term basis in a few Provinces, but over the longer term fundamental changes are required in the financial framework for districts.

MPF has proposed reforms in district governance structures, the formulation of discrete competencies for district administrations and framework for district finances. These have been incorporated in a revised District Administration Act. However, the act, like many of the other fundamental reforms of local governance, has yet to be finalised and does not feature in the Government's Programme for 2000-04. Consequently, although MPF's pilot initiatives will proceed, the measures required to formalise the district's role in bottom-up planning are unlikely to be put in place in the near future.

5 Public Expenditure Management

5.1 Towards a reform strategy

During the early stages of the Economic Reform Programme, priority was given to improvements in public investment management in order to ensure that the substantial inflows of external assistance were programmed in line with policy priorities. Following the recommendations of the 1989 Public Expenditure Review (World Bank 1998), the National Planning Commission introduced a rolling three-year public investment programme in 1990, which subsequently became the principal tool for managing internal and external financing of the investment budget. Meanwhile, the Ministry of Finance focused on the problems of expenditure control, particularly as regards the management of counterpart funds, following a series of damning reports by donors (World Bank, 1992; Plank, 1993).

A review of the public expenditure management system undertaken by MPF and the World Bank in 1995-96 pointed to the limitations of this piecemeal approach to reform (World Bank, 1996). The review stressed the importance of an appropriate institutional and legal framework for public expenditure management and the need for co-ordinated reforms to address weaknesses identified throughout the expenditure management system. MPF responded with the presentation a Budget Framework Law and an Expenditure Management Reform Strategy (EMRS), both of which were approved in 1997. The Reform Strategy aims to ‘ensure a high degree of efficiency and effectiveness in the use of public resources, as well as the financial sustainability of government-funded activities’ (MPF, 1996). This entails reforms in all functional areas: resource allocation and strategic expenditure planning; budgeting; budget execution and cash management; debt management and negotiation; accounting and reporting; and internal auditing. However, the strategy focuses on financial management. Some reference is made to the planning process, though largely in the context of resource programming. No attempt is made to integrate existing planning instruments, such as the annual Economic and Social Plan into the budgeting reforms.

Most of the reform measures identified in the EMRS will be implemented by the Ministry of Planning and Finance. The strategy seeks to build on line Ministries’ initiatives in the development of sectoral programmes by providing ‘incentives’ for line agencies to formulate clear development policies and improving MPF’s internal procedures for inter-sectoral resource allocation. Otherwise, the ERMS has little to say about line Ministries’ budgeting processes, accounting structures or budget execution procedures. This reflects the fragmentation of the public expenditure management system and the considerable autonomy granted to line agencies in managing their internal affairs (see Box 3). No fundamental change in the nature of intra-governmental relations is foreseen in the reform agenda, indeed the measures proposed may actually reinforce sectoral autonomy as the MPF gradually moves towards a system of strategic control and the scope for MPF intervention is reduced. In this context, sectoral initiatives in expenditure management are as important in determining the poverty impact of public spending as the broader system reforms introduced by MPF.

5.2 Establishing an appropriate institutional framework

During the early stages of post-war reform, consolidated resource planning and the development of functional linkages between budgeting and planning were hampered by the administrative separation of the National Planning Commission – responsible for investment programming – and the Ministry of Finance – responsible for recurrent budgeting and overall financial management. These two institutions were combined in a Ministry of Planning and Finance, under the leadership of the former Vice-Minister of Planning, when the new Government was created after the first multi-party elections in late 1994.[5] However, the functional integration of these institutions was slow in taking place: MPF's institutional responsibilities were defined in mid-1996 but it was only in early 1997 that the Ministry's internal and the personnel structure was approved.[6]

Box 3: How Powerful is Mozambique's Ministry of Finance?

A relatively powerful Ministry of Finance is critical in ensuring an efficient level of spending and allocation of public funds. In the early post-Independence period, institutional reforms in Mozambique undermined the Ministry of Finance's authority by dispersing responsibility for resource allocation within the public sector, first by decentralising responsibility for financial management to line Ministries in 1975, then by subordinating financial management functions to the central planning machinery introduced in 1981 and, in the early stages of the reforms, by passing responsibility for aid management to a separate Ministry of Cooperation. As a result, in 1992, there were three institutions responsible for core resource management functions: the Ministry of Finance, the National Planning Commission and the Ministry of Co-operation.

Post-war reforms consolidated planning and financial management functions in a unified Ministry of Planning and Finance and downgraded the aid management function of the Ministry of Co-operation by amalgamating this institution with the Ministry of Foreign Affairs. This strengthened the MPF relative to other Ministries, though the Ministry still lacks the authority enjoyed by its counterparts in Commonwealth countries. Challenges to MPF's authority arise from:

- **Decentralised financial management:** In 1975, responsibility for budget execution was 'decentralised' from the Ministry of Finance to line Ministry Finance and Administration Directorates. These Directorates execute payments to suppliers from decentralised bank accounts are financed by an advance from the Ministry of Finance which is then replenished monthly against the presentation of statements of accounts. Line Ministries are treated as a single budget holder and are not required to disaggregate budgets or accounts according to their internal structure. Although MPF can exert control over line Ministries by contesting agencies' budget proposals and regulating the monthly replenishment of accounts against statements of expenditure, the line Ministries' authority over resource application decisions in its area of competence is generally respected.
- **Alternative sources of funding:** Line Ministries have access to resources that are not directly under MPF's control and are often not even fully reported to MPF: assigned revenues and revenues generated from services provided by the institution and external assistance grants. Particular problems arise where agencies – both line Ministries and departments within line Ministries – negotiate and enter into financing agreements with donor agencies without the requisite authorisations. Sector programmes and the move towards budgetary support have reduced the scope for such 'back-door' financing and strengthened the hand of core institutions, though the majority of donor funds continue to be disbursed through standalone projects.

Although the new institutional structure consolidated responsibility for investment programming, budget preparation and planning in a single Planning and Budgeting Directorate, the Directorate's internal structure – finally agreed in 1998, three years after the merger of the planning and finance institutions – does not facilitate the integration of these functions. The Directorate comprises three separate Departments: one responsible for investment programming and budget preparation; another responsible for the annual Economic and Social Plan; and a third Department responsible for macro-economic policy, the MTEF and the preparation of the PARPA, though with separate teams working each of these instruments. Since the operational collaboration between these

[5] Decreto Presidencial Nº 2/94 of 21 December (BR I Série Nº 51).
[6] Decreto Presidencial Nº 2/96 of 21 May (BR I Série Nº 20) Define as atribuições e competências do Ministério do Plano e Finanças; Diploma Ministerial Nº 2/97 of 1 January (BR I Série Nº 1) Publica o Estatuto Orgânico do Ministério do Plano e Finanças; Diploma Ministerial Nº 27/97 of 21 May (BR I Série Nº 21) Aprova os quadros de pessoal comum e privativo do Ministério do Plano.

departments is weak, it has proved difficult to develop consolidated framework for planning and resource management. This has had important implications for poverty planning: while staff involved in the routine planning and budgeting instruments are aware of the overall priority given to poverty, they have little knowledge of the details of the PARPA since they were not substantially involved in its preparation. In 1999 and 2000, attempts were made to involve the PARPA team in budget negotiations with sector agencies, greatly improving the quality of analysis, but this is a poor substitute for closer functional integration of the various planning and resource management instruments.

Although institutional barriers are a problem, the fundamental weakness of the institutional structure for public expenditure management lies in the acute shortage of qualified personnel. Only 6% of the MPF staff are graduates, and most of these are concentrated at the central level, in policy and planning departments. A further 33% of staff have middle level technical qualifications (twelve years of education) and 27% have basic level qualifications (ten years), while the remaining 33% have nine years of schooling or less (MPF, 1999). While this human resource profile may look rather bleak by international standards, MPF's position is stronger than most other ministries because employment in MPF confers a significant salary supplement. Nevertheless, MPF, like other public institutions, has considerable difficulty in recruiting from the small pool of graduates from the technical institutes and the University, particularly at provincial level.

Table 8: Ministry of Planning and Finance Staffing and Technical Assistance

Department	Total staff 1999	Univesity Graduates 1999	% Graduates	Man Months TA 1995-99
Office of the Minister	56	13	23.2	
Research Office	8	5	62.5	22
International Cooperation Department	7	6	85.7	11
Planning and Budget	77	18	23.4	97
Tax and Auditing	372	23	6.2	30
Public Accounts	147	2	1.4	20
Treasury	111	27	24.3	38
Administration and Human Resources	258	8	3.1	
State Property	60	11	18.3	
General Inspectorate of Finances	60	11	18.3	4
Provinical Directorates	1214	17	1.4	135
Total	2370	141	5.9	357

Source : MPF (1999)

Human resource constraints limit the scope for analytical work and the pace at which technical reforms can be introduced. Many staff, at provincial level especially, have difficulty writing reports or making basic calculations and are more comfortable with routines and form-filling. This places a heavy burden on the small number well-qualified and experienced staff in each institution. Staff turnover is a major problem, particularly in the planning departments of sectoral institutions and at the provincial level, where staff are frequently rotated to other 'higher priority' functions, thereby compounding the underlying capacity constraints as trained, experienced staff are lost. There is greater continuity amongst planning staff within MPF, but senior levels have seen a high turnover: during the 1990s; for instance, there have been five Planning Directors.

MPF's response to these capacity constraints has been to focus on upgrading the skills of existing staff, by offering scholarships for graduate training and extensive training programme for MPF and other Ministries' staff on public expenditure management procedures, focusing on those procedural changes introduced under the reforms. Of course, there are limits to what can be achieved in a five day course and training has tended to focus on procedures rather than the development of much needed analytical skills. At the same time, the Ministry has sought to mobilise additional skilled personnel through Technical Assistance contracts (benefiting from 360 man-months of assistance between 1995 and 1999). However, senior staff are acutely aware of the negative impact of salary differentials on staff motivation and the difficulties in managing staff that are not directly subordinate to MPF personnel.

5.3 Establishing the legal foundations for reform

The 1996 Public Expenditure Management Review argued that revision of the arcane, sometimes contradictory legal framework for public expenditure management – based on legislation dating back to 1901, complemented by diverse decrees and administrative circulars – was a pre-condition of expenditure reforms. A new Budget Framework Law was enacted in July 1997[7], laying out budgetary principles and defining institutional responsibilities in the management and oversight of the State Budget and Accounts, together with legislation providing for the auditing of State Expenditures and Accounts.[8] This was followed, over the following year, by regulations covering budget classification and procedures.[9]

This flurry of legislative activity has established the essential framework on which subsequent reforms could be built. However, significant gaps remain. The basis for accounting and cash management within the public sector received only cursory treatment and is still governed by legislation dating back to colonial times. Equally important in the context of the present study is the failure to specify linkages between the budgeting, planning and resource management. While the budget regulation requires Provinces and Central Government agencies to submit their plans and budgets at the same time – itself a major step forward – it does not define how the plan should be used in the budgeting process. Similarly the audit legislation makes provision for performance auditing, yet neither the Budget Framework Law nor the subsequent regulation requires agencies to identify the outputs and outcomes to be achieved with public spending.

Similarly, the legislation relates exclusively to the annual budgeting cycle. The PIP, then in its seventh year, is not covered and no provision is made for multi-annual resource programming instruments such as the MTEF or the sectoral programmes. While these omissions are understandable given the ill-defined status of these instruments at the time the legislation was promulgated, the result is to relegate these forward planning instruments to administrative functions. This has important implications for the transparency of the budget process, since there is no requirement for the Government to provide the National Assembly with forward estimates of resource availability and expenditure allocations, which would provide a much sounder basis for the appraisal of fiscal policy than annual estimates.

Clearly there is a need to establish a legal framework embracing both planning and financial management functions. At present, the planning system operates virtually without legal foundation. While the constitution requires the Government to submit an annual plan, there is no legislative basis for the planning process or the procedures and methodologies to be applied. These issues are currently addressed in methodological guidelines prepared by MPF, but, lacking a legislative basis, they cannot be enforced. If planning and budgeting are to be integrated, if the budgeting system is

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[7] Lei 15/97 of 10 July (BR I Série Nº19), *Establece princípios, regras e normas de enquadramento do Orçamento do Estado e Conta Geral do Estado*

[8] Lei 5/92 of 5 May (BR I Série Nº 19) *Establece as competências do Tribunal Administrativo*; Lei 16/97 of 10 July (BR I Série *) *Aprova o Regulamento da organização, functionamento e processo da 3ª Secção do Tribunal Administrativo*

[9] Decreto 7/98 of 10 March (BR I Série Nº), A*prova o Regulamento que rege a execução e alterações do Orçamento do Estado da competência do Governo*

to more towards a performance oriented approach, and if the government is to be able to assess value-for-money, these gaps in the legislative framework will have to be filled.

5.4 Strategic prioritisation and resource allocation

The ERMS gives high priority to improvements in strategic prioritisation of public sector resources, so that resources are allocated in line with coherent policies and objectives and within a sustainable medium-term resource profile. This is to be achieved by the development of instruments at three levels: firstly, through improvements in budget coverage and structure; secondly, through the formulation of integrated strategic sectoral programmes and cross-sectoral strategic plans at the provincial level; and lastly, through the development of a Medium-Term Expenditure Framework.

Improving budget structure and coverage

Introduction of a revised economic, administrative, functional and territorial classification of expenditure and revenues, following international standards, was a key element of the ERMS and the focus of much of the training activities undertaken by the MPF during 1997 and 1998. The aim was to provide the basis for consolidated analysis of public expenditure across both the recurrent and investment budgets, thereby facilitating the allocation of resources in line with Government priorities and strengthening expenditure controls.

Although the new classifications have significantly improved consistency and transparency in the reporting of financial operations, they are far from providing a satisfactory basis for expenditure management and analysis. The functional classification identifies only broad sectors, such as education; the programme classification, used unsystematically in the investment budget, is not extended to cover the recurrent budget; and the administrative classification does not require a breakdown of Ministries' accounts at departmental level. Consequently, while it is possible to determine how much has been allocated to and spent on education, it is not possible to determine, on the basis of budget documentation and accounts, what proportion is intended for or delivered to primary education. Similarly, while it is possible to determine how much has been budgeted for a Provincial Education Directorate, budget and accounting documentation does not indicate how much has been allocated and disbursed to each district, let alone to each school. Obviously, this hinders assessments of the consistency of sectoral strategies and resource allocations and attempts at monitoring the poverty impact of public expenditures. It also reinforces the traditional, incremental approach to budgeting and the poor linkages to sector planning, since – in contrast to the activity-based budgeting adopted in Tanzania, Zambia and Uganda – there is no requirement or mechanism for linking expenditures to priority programmes and activities. Clearly, these are issues that will have to be addressed in future reforms of the accounting and budgeting system.

Some progress has also been made in improving budget coverage, particularly as regards operations that are directly under MPF's control, such as relations with public enterprises. However, several autonomous institutions – including the development funds, road maintenance fund and National Social Security Institute – are not reflected in the State Budget, while others have unclear financial status and accountability structures (MPF, 1999). A substantial part of the resources channelled through sectoral institutions remains off-budget, largely because of the poor coverage of grant financed external assistance, legally assigned revenues or other undeclared income generated from user fees, sales of goods and state property. In the health sector, for instance, according to a MPF study, undeclared revenues amounted to 34% of the sector's recurrent budget allocation in 1998 and off-budget grants were equivalent to 9% of the sector investment budget in that year (MPF, 1999). Resolution of these problems requires both legislative interventions, to clarify the status and financial reporting requirements of all public institutions, and improved financial control and auditing.

Sector programmes

Integrated, medium-term sector programmes first appeared during the post-war reconstruction as a means of improving co-ordination between numerous donor interventions. In the health sector, the programme was based on the Ministry's programme for post-war construction, but sector programmes in the agricultural and roads sectors were built around major donor interventions, the UNDP-led Agricultural Pre-Programme and the World Bank financed Roads and Coastal Shipping Project. From 1995, during negotiations for the second phases of these programmes, donors encouraged a wider range of sector Ministries to move towards a sector-wide approach, following the experience of other African countries. On the Government's side too, greater attention was given to the policy agenda, with the formulation of sectoral policies in the health, education, agricultural and water sectors, addressing the state's role in the sector and identifying priority interventions. By 1997 five integrated sectoral programmes were in various stages of design and implementation (agriculture, education, health, roads and water), each adopting a slightly different approach to operational management but broadly following policies of sectoral deconcentration, giving priority to rural development and seeking to realign public interventions so as to complement the role of alternative non-governmental providers.

MPF was broadly supportive of these sectoral initiatives, since the programmes provided a means of integrating external and internal financing and the investment and recurrent budgets, and allowed the Ministry to pay closer attention to substantive policy matters, rather than the minute detail of individual projects. However, MPF involvement in detailed programme design only really began in 1997, when donors sought to establish mechanisms for channelling budgetary support through the Treasury system rather than directly to the sector Ministries and the sectors sought commitments regarding the Government's contribution to the programme over the medium-term.

MPF's guidelines on sector programmes were only published in 1998, when the design of the programmes was already at late stage (MPF-DNPO, 1998). The guidelines focused, primarily, on the flow of funds but also sought to address concerns that the sectoral programmes were reinforcing vertical structures and undermining government-wide coordination and accountability mechanisms. MPF argued that sector programmes should be managed through a broad consultative process involving not just sectoral representatives at the provincial level but also the cross-sectoral consultations. It also reminded sectors of their obligations to satisfy government-wide reporting requirements through the annual Economic and Social Plan, alongside the programmes' internal and donor-oriented planning and reporting mechanisms.

These issues have become critical with the introduction of the PARPA, since, if PARPA to become an effective framework for planning and resource allocation, MPF will have to establish formal mechanisms for the review of the sector programmes and their annual operational plans to ensure their consistency with poverty reduction goals. This also implies a much more interventionist role for MPF than has traditionally been the case.

The Medium-Term Expenditure Framework

Introduction of the MTEF was, in part, a response to sector Ministries' requests for medium-term commitments regarding the availability of domestic financing as a guide for their sector programmes. It responded to a number of MPF's concerns, including: the alignment of expenditures with resource availability and gradual reduction of external dependence; the development of consolidated framework for resource allocation, embracing both the investment and recurrent budget and internal and external financing; and a means of linking budgetary limits to the medium-term financial plan rather than working on incremental basis.

The first MTEF, covering 1999-03, prepared during 1997 and 1998, focused on five sectors with sector programmes in place, each of which was required to present a strategy and forward projections based on their financing requirements, providing details of the composition of expenditure by broad sub-programme, source of financing and economic category. Forward projections at an aggregate level for the remaining sectors were based on an assessment of the sector's policies, spending plans and historical performance. In subsequent exercises, expenditure limits have been set over the programming period and detailed analysis has been extended to include other priority sectors (Justice, Interior, State Administration, Labour and Social Action). In this way, it has been possible to provide a more substantive analysis of a wider range of sector programmes, linking these to projections of resource availability.

One of the achievements of the MTEF process is that it has managed to elevate discussions regarding resource allocations beyond the detail of budget submissions, not just within MPF, but also within Cabinet, which has approved both the 1999 and 2000 exercises. The MTEF has also provided a sounder basis for setting annual budget limits, which were formerly largely incremental, except in the social sectors where limits have generally reflected agreements reached with external financiers. However, the MTEF is still a fragile instrument. Although some progress has been made in the development of tools for projecting macro-economic variables and revenues, these are not particularly robust over an extended five-year programming period. Certainly, underlying projections of growth and revenue performance are extremely optimistic and tend to be set as targets rather than what can reasonably be achieved.

Preparation of the MTEF has been the responsibility of a small team, mostly consultants. When technical assistance personnel departed, MPF's capacity to analyze and compile sectoral programmes was undermined and the process was delayed, to the point that the 2002-06 MTEF was merely an update of the previous programme and was not used in setting the budget limits. Nor is the MTEF fully integrated into the planning process, its role in relation to the PIP is still undefined and more significantly the MTEF was not used in the preparation of the PARPA. Measures intended to resolve some of these institutional and technical problems feature in the ERMS and operational documents, and there is clearly a strong commitment within MPF to the development of the MTEF as a central tool within the planning system.

More fundamental concerns relate to MPF's ability to translate forward resource limits and sectoral spending plans into improvements the efficiency and effectiveness of service delivery at the field level. This requires a budget process that directs resources towards priority activities and mechanisms of budget execution that ensure and facilitate compliance with spending plans. The weaknesses of these systems have led some to argue that Mozambique's MTEF is premature since the basic building blocks of budgetary management are not in place (Schiavo-Campo and Tomasi, 1998). These constraints are addressed below.

5.5 Improving budgetary oversight and compliance

Since the mid-1990s, and especially since the launch of the ERMS, considerable progress has been made in establishing the basic framework for expenditure oversight and compliance control. Major achievements include:

- Preparation of the 1998 State Accounts in December 1999, the first State Accounts to be closed since the early 1980s and the first accounts to be submitted to the National Assembly and Administrative Tribunal since Independence. Previously it had proved impossible to finalise State accounts owing to delays in the presentation of registers by spending agencies and provinces and difficulties in reconciling accounting registers with records of treasury releases and bank statements. Work is still under way in the finalisation of accounts for 1984-97 (MPF-DNCP, 1999).

- Review of the 1998 State Accounts by the Administrative Tribunal and submission of audit report and opinion to the National Assembly in mid-2000, also for the first time since Independence. The Administrative Tribunal's responsibility for auditing of State Accounts was defined in the 1990 Constitution and the Tribunal's statutes were published in 1992, but it was only in 1997 that the legal regime for ex-ante and ex-post supervision of public spending and oversight of the State Budget was defined.
- Publication of quarterly reports on budget execution from first-quarter of 2000, in principle 45 days following the end of period, including a summary of budget financing and execution using summary economic, administrative functional and territorial classification. Quarterly reports were formerly prepared for MPF's internal use only and tended to be delayed by two to three months and suffer from inconsistencies and poor coverage.
- Improvements in cash management, including the introduction of annual and monthly treasury plans at central and provincial level from 1996, as a basis for programming cash resources and allocating resources during budget execution, and the introduction of treasury bills as a source of short-term bridging finance. This, together with improvements in the timeliness of submission of accounts, has reduced short-falls in the release of budget funds and improved execution rates.
- Establishment of an effective internal inspectorate within MPF, carrying out about forty inspections a year, submitting reports to line Ministries and unsatisfactory findings to the Attorney General. Originally created in 1990, MPF's internal inspectorate had only five staff in 1993. By 1999, the inspectorate had sixty staff, auditing manuals were available and staff had been trained.

Although the basic institutional and procedural framework for expenditure oversight and compliance control is now in place, the underlying structure of public accounts, which is based on legislation dating from 1901, is in need of a thorough overhaul (MPF-DNCP, 1998). The major changes proposed include: requirement for the recording of all stages of expenditure execution, including commitment and verification controls; reduction or elimination of the carryover period, which currently extends budget execution to three months after the end of fiscal year; further disaggregation of the accounting classifications, in order to provide more detailed information regarding the application of public funds by function and administrative units; and tightening up of procedures for cash management, reducing the number of bank accounts used by Government. A recent IMF review of fiscal transparency has also suggested that oversight could be improved by improving budget coverage, providing specific objectives and priorities for fiscal policy and the outputs of public institutions as the basis of assessments of performance, and reducing the time-lag in presentation of the auditors report (currently 20 months) to less than one year (IMF, 2001).

Improvements in oversight and compliance will also require further strengthening of capacity. The Administrative Tribunal's third section, responsible for *ex ante* and ex post financial audits had just twenty three staff in 2000. Although additional, temporary staff were recruited to assist, staffing levels were insufficient to carry out annual audits on over three-hundred budgetary institutions – including Ministries and Provinces, autonomous public institutions, municipalities and public enterprises. The Tribunal suggests about 150 audit staff would be needed to carry out these functions. Similarly, shortages of personnel limit the scope of the internal inspections, which, in 2000, covered only nine of the forty-nine central institutions and fourteen of over 350 provincial directorates. Throughout the Government's accounting system there are acute shortages of qualified personnel, with the public accounts department having the lowest proportion of university educated personnel in the whole MPF. Given this limited oversight capacity and the nature of the decentralised, cash-based budgetary execution system, the Government's capacity to enforce expenditure compliance are much weaker than found in Commonwealth countries with centralised payments systems in place.

Box 4: Leaders and Laggards in Public Expenditure Reform

The design and implementation of the public expenditure reforms has involved a wide range of actors within and outside Government. These actors have assumed differing roles in the reform process:

MPF Directorates: MPF's Budget and Planning Directorate (DNPO) took the lead during the formulation of the EMRS and subsequently assumed responsibility for monitoring reform implementation, reporting to a technical committee comprising all Directorates and chaired by the Minister. Initially, DNPO was an aggressive innovator, while other Directorates proved more cautious. When DNPO advocated a radical restructuring of the administrative classification, for instance, allowing the disaggregation of expenditures within each central institution, it was overruled by the Public Accounts Directorate. Similarly, proposals for centralised budgetary support mechanisms, also proposed by DNPO, were initially resisted by the Treasury Directorate. This may reflect different perceptions of the risks and administrative burdens associated with reform initiatives, both of which tend to be greater for those responsible for budget execution than those engaged in budget preparation. Since then, however, roles have been reversed, with accounting and treasury directorates developing reform programmes while the Planning and Budget Directorate has tended to lag behind reforms.

Line Ministries: Far from waiting for MPF initiatives, line Ministries have taken the initiative in reforming their planning and financial management systems, launching major reforms, such as the sector programmes, sector-specific accounting systems and computerised financial management systems, without seeking prior-MPF authorisation. MPF has tended to follow the curve, seeking to establish guiding principles so as to ensure consistency between these innovations across government once sector have been put in place.

World Bank and IMF. The World Bank was closely involved in the initial design of the ERMS but took a back seat during implementation. The IMF actively promoted the reform initiatives, presenting and monitoring key reforms – such as the budget reclassification, introduction of the MTEF and quarterly reports on budget execution – alongside other activities identified in the Policy Framework Paper (IMF, 1996 and 1998).

Other Donors. Public expenditure reforms were financed by a wide range of donors, though two donors – UNDP and Sweden – stand out, both in terms of the duration of their assistance to MPF (UNDP's programme started in 1987, while Sweden's was launched in 1990, and both were still on-going in 2001) and the volume of assistance provided (UNDP's programme averaged $2 million a year in the late 1990s, Sweden's programme about $1 million). During the early stages of the reforms, assistance focused on planning and budgeting; subsequently attention turned to accounting and treasury functions. .

Technical Assistance: Technical assistance teams have played an important role in the design and implementation of reform initiatives throughout this period. The challenge for MPF has been to reconcile the sometimes conflicting advice provided by advisors – at one point in the early 1990s, for instance, the Swedish and UNDP projects proposed rival accounting reforms – and ensure that the reform agendas that are proposed are implemented in line with institutional capacity. Technical advisors have tended to push ahead with the development of technical instruments, leaving MPF personnel to catch up, sometimes, though not always, supported by in-service training.

5.6 Integrating external assistance

Back in 1986, when Mozambique's primary concern was to mobilise as much development assistance as possible, a specialist Ministry of Cooperation was established, taking over functions that were formerly held by the Planning Commission. This led to dispersion of responsibility for the management of external assistance, with the Ministry of Cooperation (which was joined with the Ministry of Foreign Affairs in 1994) as the primary interlocutor for bilaterals and the UN system, while the MPF dealt with the Bretton Woods Institutions, and the Bank of Mozambique managed relations with regional development banks. In this context, it is hardly surprising that difficulties arose in co-ordinating diverse donor programmes with the Government's internal resource allocation process.

While MPF regarded the Public Investment Programme as the principal mechanism for programming external resources, most donors defined their multi-year programmes on the basis of bilateral negotiations with sectoral agencies and the Ministry of Cooperation, with minimal involvement from and often without prior authorisation of MPF. The PIP relied on sectoral institutions providing information on pipeline and approved external financing and its execution. However, coverage from this source is poor, partly because the sectors had little incentive to provide such information, partly because the information available is incompatible with budget formats but also because some donors fail to provide information to counterpart institutions. An attempt was made to enforce compliance with reporting requirements in 1995, at the end of the emergency programme, by restricting exemptions on import duties to those projects identified in the Investment Budget. However, donors objected to these administrative controls and exemptions were often granted whether or not projects were properly registered. Since it proved impossible to enforce limits on external financing in the absence of adequate reporting, MPF has focused instead on the level of domestic financing of the investment budget, restricting access to counterpart funds. Secondary reporting channels were established, through MPF's International Cooperation Department, based on donors' reports of commitments and disbursements. Although this secondary reporting channel has helped to reveal the extent of under-reporting on the budget, estimated at about one quarter of the external financing reported by donors in 1998, it cannot satisfy the detailed requirements of the budget.

Although reporting of donor commitments and disbursements is still poor, aid co-ordination has improved markedly in other respects. Donors have come to regard MPF as the central policy institution, involving them in discussions regarding programme design and implementation. Sector working groups have been created, providing a forum for discussion between donors and with Government on policy and operational issues, reducing duplication and providing a framework for the harmonisation of procedures and reporting. These Groups are now chaired by Government, assisted by a 'focal donor' (usually the predominant donor in the sector). Working groups have been established on thematic issues, some sectoral (education, health, agriculture, water, environment, roads and coastal shipping), others horizontal (budget, balance of payments, public administration) while still more are to be established (de-mining; media; police; parliament; and judiciary).

With the move towards a programme approach, donors have also adopted more flexible programmatic financing mechanisms that have enabled beneficiary institutions to integrate donor financing into its planning process more effectively. Swiss Cooperation started to provide sectoral budget support in the health sector as early as 1992 – at a time when scandals surrounding the poor accounting of counterpart funds raised serious concerns regarding the integrity of the Government's financial management system. At the same time, donor-managed pooling arrangements for medicines and the recruitment of foreign medical staff led to some harmonisation of donor procedures. While there was some concern on the government's side that closer donor coordination gave the donors excessive influence in policy matters and some officials resented the demanding financial requirements and rigorous external audits required by donors, on balance the health sector's experience was seen as positive. 'The joint management of external and state funds compelled donor agencies and health authorities to collaborate. Having to meet rigorous donor requirements forced the health administration to improve performance. Budget support, by stimulating the design and integration of original planning tools explicitly geared at rationalising resource allocation, has contributed to the increase of the sector's outputs and reduced some inequities and inefficiencies' (Pavignani and Durão, 1999: 248). A similar approach has been adopted in other sectors with integrated programmes in place, though, since 1998, these programmes have eschewed mechanisms channelling assistance direct to the sector in favour of support channelled through the Treasury. Unfortunately, these budgetary support mechanisms still account for a relatively small part of the total sectoral financing.

6 Information and Analysis

6.1 Poverty monitoring and analysis

Formulation of the 1990 and 1995 poverty reduction strategies was handicapped by the absence of information on the incidence and characteristics of poverty, particularly in rural areas. Both strategies gave high priority to improvements in data collection, leading to the implementation of a household survey, first on pilot basis in Maputo City in 1991, then in the Provincial capitals in 1992/93 and finally with national coverage in 1996/97. This was followed by a Participatory Poverty Assessment, Demographic and Health Survey and a second national census (see Table 8). The National Statistics Institute now intends to move towards a multi-year survey cycle, incorporating the census every ten years, household, agricultural and labour force surveys every five years and a basic indicator survey, following the World Bank's CWIQ methodology, every two years. These surveys will be used to assess progress in achieving the PARPA's poverty reduction and service delivery targets, complementing information drawn from administrative channels presented in the ESP (see Section 6.3).

Table 9: Poverty Surveys

Survey	Most Recent	Previous	Frequency	Implementation	Analysis
Population Census	1997	1980	10 years	NSI	NSI
Household Survey	1996/97	1991, 1992-93	5 years	NSI	MPF
Demographic and Health Survey	1996		5 years	NSI/MH	NSI/MH
Agricultural Survey	2001		5 years	NSI/MA	NSI/MA
Basic Indicator Survey	2000		2 years	NSI	NSI/MPF
Participatory Assessment	1995/96			MPF/UEM	UEM
Labour Force Survey	2001			NSI	NSI

Data generated from quantitative surveys, particularly the 1996/97 Household Survey, has been used a basis of policy formulation and widely circulated in Mozambique together with policy briefs and provincial poverty profiles (see Section 2.5). This is in marked contrast to results of the Participatory Assessment undertaken in 1995/96, the results of which were largely ignored by policy makers.

Two reasons may be advanced for the different treatment of these surveys. Firstly, there is a preference for quantitative data, particularly where survey results are politically contentious, since quantitative data and statistical analysis are seen as ensuring analytical rigour. Secondly, implementation of the Household Survey was led by NSI and the subsequent analysis by MPF's Department for Population and Social Development, so the survey was clearly identified with Government and policy departments were involved in the interpretation of results. The fact that much of the Household Survey analysis was conducted by consultants from IFPRI, some of whom were based at the University and others in Washington, seems to have made little difference to MPF's sense of ownership. In contrast, the analysis of Participatory Assessment was part of a World Bank initiative, implemented by the University with only marginal involvement from the MPF. Consequently, MPF's staff had little confidence in and were unclear as to how to interpret its results.

Although the participation of policy and planning departments in survey analysis has meant that policy decisions are better informed, it can lead to political considerations determining how survey results are used. This was apparent in the delays in the publication of the Household Survey. Preliminary results became available in mid-1998, just before the Municipal elections. Although MPF could have authorised their publication, the decision was deferred to the Council of Ministers and thereby delayed. Subsequently, the decision was taken not to distribute an analytical paper prepared for the September 1998 Consultative Group Meeting. It was only in December 1998, when the Prime Minister presented the ESP1999, that the poverty data was used officially and then no mention was made of the politically contentious regional differences in the incidence of poverty. In the end the decision to distribute the full report, as had been agreed with the donors and featured in the Policy Framework Paper, was taken by the President, though by this time results were circulating unofficially anyway. MPF's analysis of the survey data too seems to have been influenced by political considerations, certainly little attention was given to regional variations in the incidence of poverty or the assessment of poverty trends which were the most politically contentious results of the study.

Where only one source of survey results and analysis is used, as in the Mozambican case, there is also risk that policy analysts will fail to consider alternative lines of analysis. The Household Survey data, for instance, focuses attention on income dimensions of poverty and ignores other dimensions, such as empowerment, that the poor may consider equally important. There is no doubt that a Participatory Poverty Assessment, providing opportunities for consultations with the poor, would have enriched the policy analysis and possibly led to a different set of policy prescriptions. Unfortunately, following the perceived failure of the 1995/96 PPA, policy advisors show little interest in repeating the exercise and prefer to focus on quantitative analysis.

Owing to the limited capacity for statistical analysis in Mozambique – a handful of persons in NIS, MPF and the University – there is little scope for debate regarding the basis and content of policy prescriptions arising, for example, from alternative interpretations of the Household Survey results. Limited capacity has also meant that the majority of decision-makers, particularly those in local government and civil society, have difficulty in interpreting the survey results. MPF has distributed Provincial Poverty Profiles based on the results of the Household Survey and provided training to provincial-level staff so as to increase awareness of poverty issues and policies. However, it remains to be seen whether the results of this kind of policy analysis can influence behaviour lower down the administrative hierarchy to the same extent to which it has influenced policy at the national level. There is a danger, moreover, that policy analysis tends to assume the status of dogma and will be uncritically applied throughout the country rather than adapted to suit local needs as the MPF intends.

6.2 Public expenditure analysis

MPF has tended to direct and control public expenditures by setting expenditure limits rather than through a process of *ex ante* appraisal and review. Proponents of investment projects are supposed to demonstrate the policy consistency of their proposals and review a range of institutional, economic, social and environmental impacts (Gune, 1998). However, even if Ministries present details of this kind, MPF's review tends to be cursory – except in the case of loan-financed projects, which are more critically assessed – and the information is not systematically registered. MPF focuses instead on compliance with expenditure limits, leaving it the sectoral agency to select and prioritise between projects. Much the same is true of MPF's treatment of agencies' recurrent budget proposals. Analysts focus on compliance with the limits for personnel expenditures and goods and services, verifying that submissions are correctly compiled and comply with procedures for specific lines, such as pay and allowances. Some reference may be made to previous financial performance and budget allocations, based on information presented by the agency on its budget forms, but budget documentation provides little other information that could serve as the basis for appraisal of the budgetary proposal.

In recent years, the Budget Circular has drawn attention to the need for sectors to link their expenditure proposals to planned increases in service coverage and reform initiatives. For this purpose, sectors have had to submit their budget proposals together with their annual plans since 1998. However, there is no methodological guidance as to how budgets should be assessed in the light of the information presented in the plan; indeed the lack of any disaggregation of Ministries' budget proposals by programme or functional departments makes such analysis almost impossible. Furthermore, the separation of the planning and budgeting functions within MPF has meant that these instruments have tended to be analysed separately. Nor are there clearly defined criteria for contesting agency proposals – other than general observations regarding policy consistency and poverty focus.

The move towards sectoral programmes and the introduction of the MTEF resolve some of these problems, by providing an opportunity for MPF to review policy issues and the efficiency and effectiveness of sectoral proposals at the broad strategic level, instead of focusing on the detailed operational matters presented in the budget submission. However, this kind of policy analysis requires the support of detailed public expenditure reviews. Reviews were undertaken in 1989 and 1991 with the support of the World Bank and a further review was initiated in 1996, as part of Public Expenditure Management Review, but never completed (having got bogged down in attempts to reconcile expenditure outturn data).

A new review is to be undertaken in 2001, again with World Bank. Following the World Bank's recommendation this is to include the usual three-step analysis of public expenditures (the rationale for public intervention; analysis of efficiency and cost-effectiveness; and benefit incidence analysis) together with an assessment of the impact of HIV/AIDs and the potential for introducing elements of output and outcome oriented budgeting.

MPF intends to integrate the PER into the annual MTEF and budget process, using national staff to carry out the analysis. This will impose time constraints and limit the depth of analysis in the early reviews. MPF intends to implement the reviews gradually, with one sector covered in 2001, scaling up to around three Sector Reviews annually on a rolling basis from 2002: in marked contrast to the practice in neighbouring Tanzania, where major reviews of key sectors are undertaken every year. While this will limit coverage, it will allow MPF and sectoral technicians to take an active role. The objectives are clearly long-term, aimed at strengthening budget technicians' capacity to contest agency proposals rather than simply generating short-term policy prescriptions.

By default as much as by design, MPF has adopted a strategic control model of public expenditure management, in which attention focuses on sector policies and strategies and the broad resource allocations that these imply, rather than the detailed analysis of project proposals and budget submissions. The success of this approach rests on establishment of routine monitoring mechanisms that can generate timely and adequately disaggregated information on expenditure and agencies' performance, supported by periodic public expenditure reviews which provide a more fundamental analysis of expenditure policy. As yet, neither of these mechanisms in place.

6.3 Monitoring performance

The central planning system, introduced in 1981, established a routine of target setting and monitoring throughout the public sector, based on a cascade of targets and quarterly reports from production and service delivery units, to district, to province and sectoral Ministry, with the

Planning Commission holding responsibility for overall plan consolidation and coordination. When central planning was abandoned in 1987 and the annual State Plan was replaced with a Economic and Social Plan (ESP), the centralized target setting and reporting system fell into disuse. The social sectors, notably education and health, managed to maintain a flow of information from the field level. In the economic sectors, however, information systems geared to production monitoring collapsed as public enterprises were privatised and responsibility for the preparation of national accounts passed to an independent statistical body. By the mid-1990s the ESP set and monitored macro-economic performance targets but measures of institutional performance were limited to the education and health services, with sporadic coverage of other sectors such as social welfare, labour, water and public works.

An attempt was made to establish a government-wide framework for monitoring line agencies' performance in 1996 by identifying a set of standardised performance indicators – mainly output measures but also some indicators of quality of service and outcomes – based on the policy priorities identified in the 1995 Government Programme and taking into account the internal reporting systems already in place within each sector. These were applied by Provincial Governments from 1997, were used in the evaluation of the 1995-99 Government Programme and have subsequently been adopted by some sectors at the national level.

By consolidating information linked to policy priorities in a standardised format, the annual plans and reports generated through the ESP process have improved the transparency of public sector operations and provided a means of holding the Government to account. At the provincial level, plans and reports are regularly reviewed in sessions of provincial government, providing a means for Governors to exert some authority over sector directorates (MPF, 1999). Similarly, the National Assembly uses the plan and bi-annual reports as a means of monitoring the Government's implementation of its programme. During the budget debates, parliamentary interventions are more often directed at issues raised in the plan than in the details of the budget.

As a tool of performance management, however, the ESP process has been less successful. A number of problems may be identified:

- Compliance with MPF planning guidelines and deadlines is poor. Although there is a constitutional requirement for the Government to present the National Assembly with a plan alongside its annual budget proposal, there is no complementary legislation defining how the plan will be prepared and institutional responsibilities in this process.
- Planning and monitoring are not linked to routine decision making within Government. Although the ESP is supposed to be an operational tool, neither the provincial governments, the sector ministries nor the MPF make use of the plan in routine management or as a guide for budgeting. Agencies do not prepare internal cascades of targets on the basis of those defined for the agency as a whole, and internal performance monitoring systems are not in place or, where indicators are monitored, this is not linked to personnel management or resource allocations. This is partly a consequence of the continued separation between planning and budget process, but also reflects the absence of a performance-oriented culture within the public sector.
- The ESP can provide an unreliable basis for assessing agency performance. This is partly because of data inconsistencies arising from the time lag in collecting data from dispersed field units and problems in compilation. However, some agencies manipulate data to present their performance in a favourable light. In the absence of alternative channels for data collection, MPF is unable to contest information from administrative channels.

Owing to the weak linkages between the ESP and the budgeting process, MPF has tended to regard the ESP as a chore, an exercise undertaken to satisfy parliament rather than a tool for management and decision-making. However, introduction of the PARPA has given the ESP a new sense of purpose. It is intended that the ESP will be the principal tool for monitoring progress in the implementation of the poverty reduction strategy. MPF has developed a revised set of performance targets and indicators, many of which coincide with those routinely reported in the new ESP. A range of indicators monitored through periodic surveys will complement these.

Coverage of the routine performance indicators, collected through administrative channels, continues to be heavily skewed towards the social sectors, with most of the information from the agricultural sector being generated through surveys rather than internal reporting channels. Moreover the problem of data quality and the application of performance information in routine management decisions, including those around the budgeting process, have yet to be resolved. Nevertheless, the PARPA has provided a framework for performance monitoring across Government, which the ESP on its own was unable to provide. The challenge that remains it to use performance monitoring mechanisms as a tool in agencies' internal management, by linking target setting and monitoring to resource allocation decisions, internal reporting and personnel management.

7 Transparency, Oversight and Participation

7.1 Transparency of the public sector

For much of the post-Independence period, information was regarded as a weapon in an on-going political and military struggle. As such, information was jealously guarded within the State and made public on a strictly 'need to know basis'. Although the 1990 Constitution provided for freedom of the press, it made no concession regarding freedom of information within the public sector.

Nevertheless, since the early 1990s, the range of policy documents made available to the public has gradually increased, starting first with broad policy documents and gradually extending to cover detailed financial information (Table 10). The Budget Framework Law has enshrined the principle of publicity, requiring the State to publish both the budget and the first State Accounts since Independence. Introduction of the new budget classifiers has allowed the presentation of a multidimensional breakdown of revenues and expenditures by economic, administrative, functional and territorial classifications. Coverage has been extended to include sensitive areas, such as the Presidency, defence and the secret services. Budget documentation also includes summary statements for each of the public enterprises, a list of transfers to autonomous bodies and a summary statement of assets and liabilities. Timeliness has also improved with the publication of quarterly reports, prepared within two months of the end of quarter, from the beginning of 2000. While further improvements are still needed, particularly as regards coverage of financial operations and the level of disaggregation of budgetary data, the quality of budget documentation is far superior to that available in 1990, when the only publicly available budgetary information was a four page budget law.

Table 10: Published Sources of Information on Public Expenditure Performance

Publication	Content	Started	Frequency
Economic and Social Plan	Macro, fiscal and social policy and performance	1988	Annual
Public Investment Programme	Financial programming by budget	1990	Annual
Budget Appropriations	Detailed institutional appropriations	1991	Annual
Government Programme	Development and legislative policy	1995	Five yearly
Budget	Multi-dimensional classification	1997	Annual
Quarterly Fiscal Reports	Fiscal operations, expenditure & revenue	2000	Quarterly
State Accounts	State final accounts	2000	Annual
Audit Report	Report of Administrative Court	2000	Annual

Improvements have also been made in public access to information on social and economic developments. The coverage of the annual plan and report has gradually been extended and the presentation of performance indicators systematised so as to facilitate analysis. Furthermore, by granting the National Statistics Institute autonomy in 1996, the Government created an independent source of information that can be used to assess Government's performance. NSI has made considerable efforts to improve the quality of information generated by administrative sources and through field surveys. It has also improved timeliness of statistical publications so that data can be used in policy formulation. As a result, the NSI's data has gradually replaced information generated through administrative channels. In 1998, for instance, the NSI's GDP estimates were officially adopted by the Government, replacing estimates prepared by the MPF on the basis of output estimates provided by line Ministries. Similarly, most of the analytical work on poverty policy was based on the results of the household survey rather than less reliable admin istrative data on service coverage.

Progress in improving transparency has been slower at the local level and within the bureaucracy. Some effort has been made to prepare provincial level data, such as MPF's 'Provincial and District Food Security Profiles' prepared in 1997/98 and 'Provincial Poverty Profiles' in 1999/00, but lower levels of Government publish little information themselves. This is partly because local government does not process a lot of the information it collects, simply sending it to Maputo for compilation. But it also reflects reluctance by some to release information that has not been cleared by superiors, at national level if necessary, and a climate of secrecy in some institutions. Some Provincial Governments, for instance, disseminate copies of their annual Economic and Social Plan, while others limit the circulation of these documents internally. Similarly, District Administrations' reports are generally not available to the public and there are no mechanisms for disseminating information to the public at the level of the service delivery units. Certainly, there is no requirement for such units to publish their budget allocations or required standards of service delivery. Nor has routine administrative data on service delivery performance been made available to the public or within the public sector to facilitate comparisons between service providers.

Clearly, improvements in transparency at the national level had little impact on clients using public services. These are issues that the Government intends to address through its public sector reform programme. However, it is significant that the reform strategy stresses the importance of consultation in making public institutions more responsive to the needs of the public but makes little mention of improved transparency at the local level (CIRESP, 2000).

7.2 Legislative oversight

Under the single-party system, the National Assembly was a cipher: key policy decisions were taken by the Council of Ministers and Frelimo's Central Committee, usually behind closed doors. The 1990 Constitution and supplementary legislation, notably the 1997 Budget Framework Law, established the basis for legislative oversight over the executive by requiring legislative approval of key policy and operational instruments, including the Government's five-year programme, the annual plan and budget and final accounts and audit report. The coverage, quality and timeliness of documents submitted to the Assembly have improved significantly, particularly since 1997, allowing the legislature to monitor and hold the Government to account for its performance. As a result the legislature has been able to exert some influence on development policy and its implementation, making alterations to both the plan and budget, such as increases in spending on the judiciary in FY1999 and defence in FY2000.

Although these are encouraging developments, it has proved difficult for the legislature to assert its authority over the executive. This is largely because the executive holds the initiative in both the policy and legislative process and hierarchical voting procedures reduce the scope for meaningful policy debate or collective action by the legislature. The Government's mandate is established by a unqualified majority vote on its five-year Programme. Since rejection of the Programme constitutes a vote of no-confidence, representatives inevitably follow the party-line. Once the Programme has been approved, responsibility for policy formulation passes to the Council of Ministers. Detailed sector policies, for instance, or broad policy instruments, such as the Poverty Reduction Action Plan, are approved by the Council rather than by the legislature. Similarly, the executive takes the initiative in presenting legislation. The executive's proposals are reviewed by the Assembly's Standing Committee and subject to plenary debate, during which alterations are made, though ultimately legislation is approved on the basis of a majority vote in which deputies tend to follow the party-line. Only once has the Assembly rejected a Government proposal, which for local government reform. To avoid this reoccurring, the Government tests Frelimo Deputies' opinion prior to legislative debate and voting, withdrawing legislation where it is unlikely to pass. As a result, the decisive policy debate is conducted within Government and party structures – still largely behind closed doors – rather than in the legislature.

The Assembly's Standing Committees play a crucial role in ensuring effective over-sight of policy process and the executive. Although party interests do play a role at this level, they are less important than in plenary debates and votes. The Plan and Budget Committee, which oversees economic and fiscal policy, has taken an active and sometimes rather critical role in reviewing development and expenditure policy. The Committee has benefited from strong and competent chairperson, a civil servant in the Ministry of Finance and former National Director of Planning, who has encouraged the Ministry of Finance to improve the quality and coverage of planning and budgetary information. Improvements have been made possible by the on-going reform process, including the reclassification of expenditures, so that a more disaggregated and multi-dimensional analysis of budgetary information is now available.

Nevertheless, informational constraints remain, particularly as regards: inconsistencies in the presentation of information in the annual plan, making it difficult to analyse performance and trends over time; lack of information concerning capital projects; inadequate disaggregation of information to province and constituency level; delays in the presentation and poor quality of implementation reports; and the failure to specify alterations resulting from price adjustments in reports. Advisors to the Committee proposed standardised reporting forms as the basis for the legislature's monitoring of the executive's plans and their implementation (GTAR, 1998), but these proposals have not been followed up. Instead, it is executive that determines the nature and form of routine information made available to the legislature. This equally true of the documentation in support of legislative proposals. Although the Assembly's Internal Regulation requires proponents to justify legislation and assess its implications, particularly from a budgetary standpoint, the supporting documentation usually provides only a summary of the proposal with little analysis. Given the nature of the approval procedures, there is little incentive for the executive to provide more substantive documentation.

The Assembly's ability to oversee Government operations is further undermined by limited technical capacity and time available for such work. Most deputies are poorly qualified (in the 1995-99 legislature 16% of deputies had tertiary education) and have little access to independent technical specialists, in part owing to inadequate funding but also because there are few Mozambican specialists available to undertake such work. The time available for analysis and debate is also short, since Committees only meet during legislative sessions, lasting ninety days each year. This problem is exacerbated where, as is usually the case with the Budget and Annual Plan, documentation is submitted on an emergency basis during the Session rather than sixty days beforehand as is supposed to be the case.

The basic mechanisms for legislative oversight are in place. Oversight could be improved by ensuring that the legislature has adequate information to assess government legislative proposals and monitor government performance, strengthening independent advisory services and providing further training for representatives. However, these measures, though desirable, will not redress the present imbalance of power between the legislature and executive. This ultimately reflects a polarised political system in which hierarchical voting procedures allow the executive to force through legislative proposals and reduce the incentive for parliaments to criticise Government.

7.3 The Role of the media and civil society

Since the relaxation of controls on the media, the independent press, particularly faxsheets and independent weeklies, have become an important forum for the debate of governance issues and government policy. Reporting on budget and planning issues tends to be concentrated around the time of parliamentary debates and generally consists of brief summaries of revenue and expenditure estimates together with a review of debates within the Assembly. Coverage contains very little analysis of policy issues, though some controversial issues – such large cuts in defence spending in FY1999 followed by increases in FY2000 to strengthen civil defence capacity in response to the floods – have attracted comment (Teleinforma 14 December 1998). Policy issues were given greater prominence during negotiations over HIPC in 1998 and 1999, with the press arguing – in support of the government – for a total debt write-off (Noticias 8 July 1998; Metical 1 March 1999). At the same time, the media criticised restrictions on public spending, imposed, it was argued, by donors in general and the IMF particular, since this was seen as constraining the expansion of social programmes and the root cause of low levels of pay and poor performance in the public sector (Metical 4 November 1998; Media Fax 10 March 2000).

In recent years, the World Bank and IMF frequently come under attack in the press on account of their influence over economic policy, lack of accountability and the poor performance of high-profile projects. Inevitably, this has led to criticism of Government too, with some journalists arguing that Government meekly accepted policy prescriptions, such as the liberalisation of the cashew trade, or pushed through administrative reforms, such as the introduction of valued tax, despite widespread concern regarding their impact on local business (Hanlon, 2000). Although the press recognised that the Government’s had to accept conditionalities in order to ensure completion of HIPC, it was argued that the policy process was excessively secretive and so failed to take into account alternative views (MediaFax 24 September 1998). Another issue that has assumed prominence in recent years is that of corruption. Much of the coverage focuses on isolated cases of corruption rather than broader governance issues, though journalists have exposed some systemic problems such as the lack of transparency in Government appointments to the boards of public and mixed capital enterprises (MediaFax 12 October 1998).

Obviously it is difficult to assess to what extent the press is able to influence Government policy, though there are signs that the Government is sensitive to press criticism. It has been argued, for instance, that a concerted press campaign forced the resignation of a former Minister of Interior in 1996 (Seleti, 2000). The tragic assassination of Carlos Cardoso, editor of the faxsheet Metical who exposed numerous cases of corruption, in early 2001, also suggests that the press has been seen as a real threat by some, though this threat will certainly be much diminished by his death. It is equally difficult to assess the extent to which the press is informs and forms public opinion with regard to policy and governance issues. Access to the printed media is limited (the two dailies have print runs of about 40,000; the total print run of the six large circulation weeklies is about 64,000; while the faxed dailies at most about 2,500) and is mostly restricted to Maputo and provincial capitals. In rural areas the radio is far more important as a source of information, but the analytical content is sparse.

Most national Non-Governmental Organisations are primarily geared towards development contracting and play a minor advocacy role. There are a few notable exceptions, the League of Human Rights, for instance, has become a focal point exposing abuse of authority and advocating reform of the judiciary, while other NGOs have focused on rural land rights and women’s’ issues. In the area of public expenditure management, the issue which mobilised national NGOs was the debt relief campaign. The Mozambican Debt Group, led by religious organisations, managed to organise conferences, demonstrations and substantial media coverage. The approach was not confrontational, the Group enjoyed support from senior politicians (its 1998 Debt Conference, for instance, was held in the National Assembly) and policy differences regarding the appropriate level of public spending were downplayed. Significantly, the Group's press briefings made few references to problems of public expenditure management and governance, such as the rising tide of corruption. Furthermore, the Group was just a single-issue coalition and dissolved when the campaign ended during 2000, leaving no permanent body to lead NGO public expenditure analysis and advocacy work. Consequently, when IDASA was exploring the possibility of supporting public expenditure analysis work in Mozambique, along the lines of the South African women's budget, it ended up working with MPF's Budget Directorate rather than an independent think-tank.

While a promising start has been made in the creation of an independent press and advocacy groups that can critically assess government policy and push for reforms, these institutions are still fragile and public expenditure issues do not figure prominently on their agenda. There is no shortage of information, recent improvements in the quality and coverage of MPF publications mean that there is more than enough material for independent analysts. Furthermore, Finance Ministers have been remarkably open to the press, even if access to senior officials is more difficult. The principal problem seems to lie in the limited analytical capacity. Both the NGOs and the media lack staff with the skills needed to undertake even basic budgetary analysis. Until these skills have been developed, independent oversight of public expenditure management is unlikely to be particularly effective.

7.4 Consultation and participation

Formal consultations between Government, Trade Unions and private sector representatives take place annually during the pay round in which the minimum wage is set. The Government also routinely consults with the commercial sector on policy issues, particularly as regards changes in tax policy and sector specific issues such as sugar tariffs. In this way, the Government has sought – for the most part successfully – to avoid confrontation with well organised, powerful interest groups and thereby facilitate the implementation of the structural adjustment agenda. Considerable effort has also been made to ensure that there is adequate consultation with the donor community on policy issues, through the annual Consultative Group Meeting, regular sectoral working groups and frequent meetings between officials and representatives of donor agencies in which government and donors discuss both policy and operational issues (see Section 5.6). There are no equivalent formal consultations between Government and civil society organisations, or the broader public, on policy priorities. Although some effort has been made to include civil society representatives in the CG meetings, since the meeting has been held in Maputo, they remain observers rather than active participants in the policy debates.

One of the criticisms levelled against the poverty planning process leading up to the presentation of the PARPA and I-PRSP was the lack of effective consultation with Mozambican stakeholders and the poor in particular. In response, a consultation unit is to be established within MPF's Population and Social Development Department with responsibility for the design and implementation of consultation strategy. The unit will be overseen by the PRSP technical working group, with representation from the government, donors, civil society groups, and the private sector. It remains unclear how much influence these consultations will have over the policy agenda at this late stage in the process. Certainly, the Government's I-PRSP submission suggests that few changes will be made, since the strategy's purpose is 'to *consolidate the consensus* around the strategies for poverty reduction and the instruments *already existing* for the fight against poverty' (GOM, 2000: 18). Obviously, the scope for consultation will be greater over the longer-term, but this will require mechanisms for sounding out stakeholders priorities and concerns down to the field level and mechanisms for providing feedback on government performance. As yet there is no clear statement regarding the nature of the consultations that will be undertaken – whether this will entail participatory assessments, attitudinal surveys or the establishment of permanent bodies. Some consideration must also be given to overcoming resistance to such consultative processes within a hierarchical bureaucracy.

Alongside the policy consultation process, the Government's public sector reform programme indicates a commitment to broader participation in policy implementation and service management (GOM, 1998). Participatory development has featured in the Government's development strategy throughout the 1990s. However, participation has usually been seen as a means of raising local cash and in-kind contributions for construction and maintenance of infrastructures such as schools, health facilities, water points, roads and small-irrigation systems. In some sectors, participatory management mechanisms were put in place, such as the School Liaison Committees introduced, but these were primarily intended as mechanisms for raising resources and ensuring consultation rather than overseeing service delivery. Certainly, the authority of these participatory bodies has not been enshrined in legislation. Future reforms aimed at improving accountability and responsiveness to clients are unlikely to be effective unless these institutional arrangements are formalised and enforced.

8 Conclusion

Mozambique was one of the first countries to prepare interim and full Poverty Reduction Strategy Papers. Although this process was largely motivated by the need to secure IMF and World Bank approval for HIPC debt relief and further external financing, the PRSP was developed from a national poverty planning exercise that started in the early 1990s. The key poverty reduction policies reflected in the PRSP of 2001 can be traced back to the Government's 1995 Poverty Reduction Strategy and Government Programme.

Over this period the information and analytical foundations of poverty policy have improved markedly. Analysis of the 1996/97 Household Survey served as the basis of the PRSP/PARPA. A framework of poverty surveys has now been put in place to facilitate monitoring during implementation. Where information is weak is in the qualitative dimensions of poverty. A participatory assessment was undertaken in 1995 but the results were never used by planners. Consequently, planners have little guidance regarding the priorities of the poor. Consultative mechanisms have been put in place, but these tend to focus on civil society leaders from NGOs rather than the poor themselves. Perhaps as a consequence of the focus on statistical analysis, the poverty policies have tended to ignore governance issues. The problems of increasing corruption, the poor quality of and lack of access to public services, and exclusion from decision-making are frequently referred to in the press but ignored in the poverty analysis and policies.

Since 1995 the Government has consistently given priority to investments in human capital, through the expansion of education and health services, and rural infrastructure, through the rehabilitation of the road network and the expansion of rural water supplies. However, sectoral budget allocations have gradually changed, with the share of the social sectors in total spending gradually increasing as the massive road rehabilitation programme has been wound down and replaced by maintenance programmes. In 2000, education, health and social assistance programmes accounted for 18.4%, 14.4% and 6.6% of total spending respectively. In that year, spending on transport infrastructure amounted to less than 10% of total spending, as compared with 15% two years earlier. The 2000 budgets also saw significant increases in the share of resources allocated to agriculture and public order, both of which are regarded as poverty reduction priorities.

Aside from debates regarding the effectiveness of spending on road rehabilitation, largely owing to the poor quality of some rehabilitation work and the poor prioritization of individual projects, and programmes in the agricultural sectors, the Government's choices regarding resource allocation have generally been endorsed by international financing partners. The overall level of public spending has been more controversial, with criticism from civil society that spending on post-war rehabilitation and the expansion of public services was sacrificed to the goal of macro-economic stability. Although public spending was curtailed in 1995 and 1996 – dropping from 30% of GDP in 1994 to 21% in 1996 - the share of resources allocated to poverty reduction priorities continued to increase. Thereafter, public spending recovered to nearly 30% of GDP in 2000, again largely driven by increases in spending on poverty reduction sectors.

The poverty orientation of resource allocations has been facilitated by reforms in core public expenditure management systems. Key steps in the reform process were the consolidation of the Planning Commission and Ministry of Finance into a single institution in 1994, the promulgation of the Budget Framework Law of 1997, introducing a new system of budget classifications that facilitated consolidated budget analysis and providing for the publication and audit of state accounts, and the introduction of the Medium Term Expenditure Framework and sector programmes tools for integrated resource planning.

Of these reforms, the Framework Law has had the greatest impact. The presentation of State Accounts in 1999, for the first time since 1979, and an audit report in 2000, for first time since Independence, significantly improved transparency and accountability in public expenditure management. This has revealed the systemic weaknesses in the public expenditure management system, providing evidence of deviations between budget allocations and outturns at all levels and the absence of accounting registers for a significant part of funds released by treasury. As a result attention has turned to the need for improvements in the accounting and treasury systems. Government is now studying proposals for a consolidated, computerized treasury systems that will facilitate the tracking of agency spending against budget allocations and funds release. Implementation of these reforms is critical to future improvements in the poverty reduction orientation of public spending, since this will improve compliance with policy orientations and reduce losses due to corruption. It is noteworthy that these proposals do not entail the creation of a central payments agency as in most Commonwealth countries. Rather they retain the existing delegated payments system, whilst ensuring that funds in treasury sub-accounts can be consolidated for the purposes of cash management. It is unclear whether this will require the abandonment of agency expenditure management systems developed in recent years.

Compliance with the Budget Framework Law also requires improvements in budget coverage. Most of the revenues collected by agencies, many of which are not legally assigned, are not reported by agencies and so are currently managed off-budget. A review of assigned revenues is urgently needed to identify those that have legal basis and those that do not and to clarify management procedures. Since the incentives for reporting are weak, these funds may have to be audited separately, perhaps by private sector firms. Similar problems are encountered in the management of external financing, particularly grant financed bilateral assistance, which tends to be underreported by beneficiary agencies. Since compliance with the requirement for agencies to submit external financing agreements to MPF for signature is poor, transfer of responsibility for the approval of external financing to Cabinet may be the only effective solution.

Integration of the Planning Commission and Ministry of Finance failed to integrate the planning and financial management functions. Within the Ministry of Planning and Finance’s Planning and Budget Directorate the preparation of planning and financial management instruments continues to be divided between separate departments. This is equally true at the sectoral level. While efforts have been made to coordinate between these departments, budgets continue to be prepared on what is essentially an incremental basis. Agencies prepare their budgets with little reference to the targets set in the annual plan and the budget. Furthermore, little attempt is made to review agency performance against plan targets when assessing agencies’ budget proposals and in-year budget revisions. Paradoxically, the National Assembly’s Planning and Finance Committee pays closer attention to the annual plan than the sponsoring Ministry.

Part of the problem is technical: the presentation of agency budgets without any disaggregation by functional departments or programmes makes it impossible to link the programmes and activities undertaken to resources. Recent attempts to disaggregate the health, education and agriculture sector budgets by functional programmes in order to verify the prioritization of primary education and health care in sectoral spending have had mixed results. In education, where the functional categories correspond to administrative departments it has proved easier to break down the agency budgets and accounts than in health where they do not. Even with sufficiently detailed data, budget analysts lack simple tools for assessing the relative merits of spending proposals or linking resource allocations to performance indicators. Sector spending reviews, starting with health and education in 2001, should identify key performance indicators and measures of cost effectiveness that can be used to assess agency budget proposals on a routine basis. Ideally, these key performance indicators will match the indicators identified in the PRSP/PARPA. With disaggregated agency budgets and key performance indicators in place, it will be possible to match resource allocations to performance measures. The obvious next step would be to present the plan and budget in the same document, following a programme or output presentation, in which resource allocations are presented alongside the programme output targets for the financial year.

Obviously, these presentational changes will only have an impact where there are corresponding institutional reforms. Agency managers will have to be given greater authority in the management of funds, which would cease to be drawn from a single pool, and take over authorizing and budget management responsibilities from the agencies' Finance and Administration Directorates, which would assume an accounting and internal audit function instead. Planning and budgeting departments would have to be merged at both the agency and Ministry of Planning and Finance levels, so that those responsible for allocating resources between programmes and sectors would also be responsible for negotiating targets against key performance indicators. Within the Ministry of Planning and Finance, this would call for a sectoral allocation of responsibilities rather than the current functional division. Finally, the underlying rationale for resource allocations would have to change. Instead of allocating resources to institutions, regardless of their performance, decision-makers would have to focus on the outputs that agencies intend to deliver and monitor their performance against these measures. The implications for public sector management are profound, turning from an administrative to a contractual relationship between agencies and core government and providing the basis for oversight institutions to hold agencies – and their political and civil servant heads – to account for what is achieved with public funds.

Development of the Medium-Term Expenditure Framework has led the Ministry of Planning and Finance to abandon the separate investment programming exercise developed in the early 1990s. To the extent that the recurrent and investment budgets are now programmed within the same macro-framework, the MTEF represents a significant step forward. Furthermore, the presentation of the MTEF to Cabinet in 1998 and 1999 helped focus attention on broad expenditure priorities rather than the details of budget allocations. However, the MTEF has yet to be properly integrated into the budget process. The MTEF is not subject to extensive debate, either in the Ministry of Planning and Finance or Cabinet, and is not presented to the National Assembly. Moreover, the MTEF has only been applied in the context of fiscal expansion, and consequently cannot be said to have served as the basis for resource reallocation, merely as a guide to the relative share of additional spending. Besides, in 1999 and 2000, the final budget limits were set outside the MTEF framework anyway, by the budget department on a modified incremental basis. Difficulties are also encountered in programming the totality of resources available, since the MTEF and the budget process alike have tended to focus on the allocation of domestic financing from core government, leaving external resources to be programmed on the basis of financing agreements negotiated by the line agencies with donor partners. These problems are interrelated: the MTEF is unlikely to be seen as a credible decision making tool until it is seen to determine the allocation of resources through the budget process, this credibility is weakened where decision-makers are able to access resources through bilateral negotiations with donors.

Comprehensive resource allocations should be defined top-down rather than bottom-up, on the basis of agency's estimates of their financing requirements and ability to mobilize external funding, as is currently the case. Top-down expenditure limits are only viable where discipline is imposed by Cabinet, requiring agencies to report all assigned revenues and external financing in their MTEF and budget submissions. Publication and review of the MTEF by the National Assembly's Planning and Finance Committee prior to setting the budget limits would also enhance credibility, focusing attention of Cabinet and the Ministry of Planning and Finance on the policy stage of the budget process rather than the administrative routines. This would also serve to improve transparency, providing an opportunity for the Assembly and the wider public to question the basis for public expenditure decisions as well as their content. In this way the MTEF would become a budget white paper, the focus of debate on policy priorities, before the detailed estimates are prepared.

Sectoral programmes have proved a much more effective mechanism for expenditure planning than the MTEF in Mozambique, though their record does vary between sectors. Indeed, the MTEF was introduced in response to sectoral requirements for longer-term financing commitments by Government as they negotiated their sectoral programmes with donors in the mid-1990s. The key element of the sector programmes is the sectoral working group, which allows donors to participate in the policy and planning process. This has improved transparency, increased confidence in Government systems and facilitated the integration of external financing into the planning process. Although some donors continue to operate outside the working group structure, and agencies have yet to abandon their bilateral negotiations, the sector programmes have improved comprehensiveness in resource planning. Difficulties have tended to arise where the Government's policy orientation is ill-defined and there are disagreements between donors regarding the appropriate policy framework. Thus sector programmes have proved easier to design and implement in the education and health sectors than in agriculture.

Reforms have tended to focus on the financial management systems of central government, ignoring management issues at sub-national level down to the service delivery point. This is a major handicap when it comes to improving the poverty focus of public spending. Decision making and resources are extremely centralized in Mozambique: central government receives over 70% of the recurrent budget and 90% of the domestic financing of the investment budget; provincial governments discretionary spending is less than 15% of their total budget; and district administrations and the newly created municipalities lack a clearly defined role in the delivery of key poverty reduction services such as education and health. While there is no *a priori* reason to believe that resources would be used more effectively if they were decentralized to provincial, district and municipal administrations, particularly given capacity constraints, a strong case may be made for budgetary deconcentration through sectoral directorates so as to ensure that an adequate share of resources are delivered to the field level. At present, it is impossible to verify what share of resources are actually spent on services to the public because sectoral budget allocations for districts are not specified, let alone service delivery units. There is widespread anecdotal evidence of administrative capture of resources by provincial directorates and losses of centrally procured goods intended for schools and health facilities. Expenditure tracking studies are now underway in the health sector to determine the extent of this problem.

In recent years, the Government has tended to focus on administrative solutions to deficiencies in service delivery management at the field level, tightening up on procedures, providing training and improving supervision, particularly in the education sector. The effectiveness of administrative measures is doubtful, however, whilst the deficiencies in governance remain unresolved. At present, service delivery units are accountable to sectoral representatives at district, provincial and ultimately national level. While efforts have been made to strengthen participation through, for instance, parent-teachers committees, these tend to be seen as means of mobilizing additional resources for school construction, maintenance and operating costs rather than management bodies. Consequently, service providers have little sense of accountability to their clients.

These problems are compounded by the absence of representative structures at district and provincial level. Both district administrators and provincial governors are appointed by central government. The recent creation of district councils is an unsatisfactory solution since these will be composed of 'traditional leaders' identified by government and have only a consultative function. While a more radical decentralization was legislated in 1994, providing for district executives accountable to elected assemblies, this was subsequently shelved in favour of a gradual transfer of competencies to thirty three municipalities from 1998. Even here central government has proved reluctant to proceed with the transfer of responsibility for key services such as education and health.

The lack of progress in the establishing of local governance structures is likely to limit the scope for improvements in the poverty orientation of public sector in the future. This is partly because the current, centralized systems stifle initiative and reduce responsiveness to locally identified needs and priorities without significantly improving control. More importantly, they reduce accountability. The National Assembly’s track record following the promulgation of the 1997 Budget Framework Law is instructive in this regard. Improved access to information through better budget presentation, submission of the state accounts and audit report have allowed the Assembly to hold the executive to account. Even though the National Assembly’s authority over the executive is limited by its lack of initiative in the legislative process and party rivalries, the Assembly has been extremely critical of lack of the adequate expenditure controls, deficiencies in budget coverage and poor performance. Such criticism has been a much more effective spur to reform than criticism from international partners.

This suggests a new focus for international partners’ support to the budget process in Mozambique. While in the past attention has focused almost exclusively on technical reforms and the development of administrative capacity by providing technical assistance and training, attention should also be paid to improving public access to analysis and information through the media and civil society organizations. This democratization of the budget process is likely to exert political pressure for greater transparency, consultation and participation. This in turn is likely to ensure that resources are applied in achieving poverty reduction goals.

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