

Report on GRIPS Development Forum PFM Seminar No.4

State Financial Management Project (SFMP), Mozambique -- Findings and Lessons from Final Evaluation of the SIDA Funded Project --

Programme

- Speaker: Mr. Ron McGill (Principal Adviser, Human and Institutional Development Department, Public Finance Management Directorate, Crown Agents)
- Time: December 9, 2005 (Friday) 15:00-18:00
- Venue: National Graduate Institute for Policy Studies (GRIPS), Seminar Room 4A
- Programme
 - 15:00-15:10 “Introduction of the Seminar” GRIPS Development Forum
 - 15:10-15:25 “A Quick Introduction to Crown Agents and its PFM Work”
Mr. Luke Gander, Chief Representative, Crown Agents/Japan
 - 15:25-16:25 “State Financial Management Project (SFMP), Mozambique – Findings and Lessons from Final Evaluation of the SIDA Funded Project”
Mr. Ron McGill, Principal Adviser, Crown Agents/UK Headquarter
 - 16:25-16:35 Coffee Break
 - 16:35-18:00 Questions and Answers
- Participants: 33 aid professionals

(See Annex 1 for Invitation Letter)

(See Annex 2 for List of Participants)

Summary of Presentation

Luke Gander

- The speaker first explained the mission and structure of Crown Agents (CA). It is a public interest organization, consisting of Crown Agents Ltd. and Crown Agents Foundation. CA Ltd. acts on a commercial basis and is owned by the foundation. The four main areas of CA Ltd. activities are: public financial management (PFM), supply chain management, financial services, and disaster relief/humanitarian assistance. Mr. Gander then outlined a holistic view of PFM and explained specific areas where CA Ltd. has accumulated expertise, such as tax administration in Lesotho, customs modernization and debt management in Angola.

(See Handout 1)

Ron McGill

- (Context – Part 2) The speaker first described the PFM reform project in Mozambique, supported by the Swedish International Development Authority (SIDA), which consisted of several phases

over 15 years. He then described the context and SIDA's approach, as well as the TOR for the evaluation undertaken by CA. (The evaluation covered only the 10-year period from 1994-2003.) At the initiation of the project, the PFM system in Mozambique had serious weaknesses, especially the lack of staff knowledge and discipline. The project faced some controversy in its final phase, with the donors impatient for improvements, IMF initiative to install its own advisor and the instigation of an alternative or replacement project. As a result, the Ministry of Public Finance (MPF) of Mozambique withdrew their support to a further extension of the project and decided to terminate it.

- (Findings – Part 3) The speaker first highlighted the positive aspects of the project such as its sustained, patient and committed approach, the trustful relationship between SIDA and MPM and the strong achievement in capacity building. Such positive impacts were attributed to SIDA's recognition of: (i) the long-term nature of the reform; (ii) the cautious gradual approach wanted by MPF; (iii) the need to respect country ownership, and so on. At the same time, he highlighted certain negative aspects of the project such as the lack of rigour in planning, slow progress and in the final phase the breakdown in communication with MPF on technicalities of the model and priorities.
- (Lessons – Part 4) The speaker first analyzed the factors which had positively contributed to the project outcome – long-term commitment, ownership etc. SIDA approach and philosophy matched MPF's view (e.g., preference for a gradualist approach rather a radical one, based on the lessons from the phase 1 failure), which fostered the long-term commitment of MPF. Sustainability of the project stemmed from shared and consultative approach, including periodic joint reviews by MPF and SIDA. It was argued that these aspects contributed to a lack of ambition and slow progress. MPF had commitment and ownership in the first half of the project because the project had been participative, consultative, and built on partnership. It had started before external pressure for change came, and MPF commitment continued to be strengthened as external pressure mounted. However, the speaker questioned MPF's ownership for the period 1999--2003, including its full acceptance of the new accounting model.
- The speaker also analyzed the factors which had negatively contributed to the project, especially in the latter half of the project – the lack of a holistic approach to reform, lack of rigour in planning and ultimately a breakdown in communication and understanding. In his view, these factors resulted in the termination of the project.
- Finally, the speaker stressed critical lessons that can be drawn from this evaluation — the importance of getting the basics right first, avoidance of heavy reliance on technical solutions, the importance of ownership, the need for context and country specific solutions and an overall strategy in which project components fit, and improved donor coordination and technical understanding.

(See Handout 2)

Main Points Discussed

Comparison with Ghana

- The chairman invited the first comments from Mr. Alhassan Iddrisu, a student in the doctoral course at GRIPS. As staff of the Ministry of Finance and Economic Planning in Ghana, Mr. Iddrisu was involved in the Public Financial Management Reform Program (PUFMARP), acting as the counterpart to donor agencies. He appreciated the usefulness of this evaluation study and commended the way the study was conducted by the CA team.
- Mr. Alhassan noted that the Mozambique case and the Ghanaian case had similarities in terms of the nature of their PFM-related problems and high commitment by the government to PFM reforms. At the same time, he cited several differences in terms of the intensity of donor coordination and the government's perception of the reform program. (While PUFMARP was supported by all the major donors, SFMP was not. The Mozambique government was more cautious to SFMP recognizing their weak technical capacity. On the other hand, the Ghanaian government opted for a very ambitious program.) He stressed the importance of having all relevant donors together under a single comprehensive PFM reform program, consistent with the national objectives, in order to reduce transaction costs. Moreover, multi-donor budget support may be useful to reduce donor controversy by avoiding the championship of a particular donor.

PFM assistance design

- Some participants requested for the information on: (i) the composition of SFMP expert team (a mix of external and local consultants); and (ii) the degree of contribution of the Medium-Term Expenditure Framework (MTEF) to the outcome of SFMP reform in Mozambique. Mr. McGill responded that SFMP team consisted of only external consultants working with MPF counterparts. MTEF had not been a focus of SIDA assistance in Mozambique at that time but was later introduced under DFID support.
- A participant questioned the methodology used for evaluating the efficiency and effectiveness of SFMP. The speaker responded that owing to a lack of a clear project plan and indicators the main focus of this evaluation had been to assess the overall achievement and impact of SFMP on Mozambique's PFM rather than its efficiency and effectiveness.
- A participant questioned what had happened after the termination of SFMP in 2003 and whether the IMF had learned the lessons from SFMP. The speaker responded that MPF concentrated on the introduction of a single treasury account and abolishing hundreds of government accounts. They also emphasized the central control against budget and the reporting needs of MPF. Such approach differs from SFMP, which in its later phase emphasized the management accounting needs of the spending departments by the introduction of an IFMIS (Integrated Financial Management Information System) to be rolled out across government.
- A participant questioned whether SIDA provided salary top-up of the MPF officials and if so, how the evaluation team evaluates its effect on the reform incentives of MPF. The speaker responded that SIDA did not provide salary top-up through SFMP, but made some allowances to the senior government officials attending various technical committees. He was not quite sure about that influence but overall questioned the balance of incentives in the project.

- A participant questioned whether and how SFMP dealt with the policy issues on human resource management other than human resource development. The speaker responded that whilst the project made an important training contribution there was no link with human resource management policy. He agreed that this was a difficult area to deal with, because the central economic agency like MPF was dependent on progress in overall civil service reform and could not readily address incentive and motivation issues in isolation.

Donor behavior

- A participant noted that for any programs to succeed, donors and a partner country should identify and analyze the weaknesses of PFM systems in a partner country as one team, and donors should avoid a donor-driven model and let a partner country recognize the weaknesses by themselves. She also questioned to what extent donors in Mozambique cared about the relationship between philosophy of partnership and the program design. The speaker agreed on the importance of ownership for success of any programs and stated that donors in Mozambique had been aware of the need for MPF's ownership. He also noted that donors still had to do something in the case a partner country did not "own" solution for addressing its weaknesses.
- Noting that bilateral donors are usually less influential than multilateral donors, a participant questioned how SFMP avoided the interventions by the IMF and the World Bank. The speaker responded that SFMP had started before other donors started their assistance in Mozambique; thus coordination was not an issue until the later phases of SFMP. The need for coordination emerged as other donors increased support to Mozambique and sought to contribute PFM components. Unusually the World Bank was not in a lead role and it was IMF that took initiative and pressed for more rapid reform.
- A participant questioned: (i) whether it is possible for donors to agree on all the aspects of PFM reforms because they are technically complex and management culture differs among donors; and (ii) how the government could avoid conflicts among donors on respective approaches to PFM assistance. The speaker responded that the extent of aid harmonization and coordination critically depended on personalities of the officials of donor agencies in the field. On this point, Mr. Iddrisu (from Ghana) also stressed the importance of donor coordination to make the whole comprehensive reform program effective and reduce transaction costs. (For example, donors need to agree on a particular accounting model and the software to be introduced.) Nevertheless, donor coordination is not enough, and an integrated approach is necessary for successful PFM reforms. Referring to the Ghanaian experience, Mr. Iddrisu stated that while MTEF was highly successful, this was not enough to move PUFMARP forward. MTEF was only one component of the comprehensive PFM reform, i.e., PFUMARP, and the other components, such as budget execution and accounting (BPEMS), lagged behind. Each component must be closely linked with the others.

Recipient capacity

- A participant questioned whether the evaluation team had examined MPF's absorptive capacity for SFMP. The speaker fully agreed on the fundamental importance of absorptive capacity of partner countries and stated that this issue was at heart of their evaluation. Under the project, a large proportion of staff in the Mozambique government have received training to strengthen their

capacity.

- In light of reform sequencing, a participant asked the speaker's views on pros or cons of: (i) decentralized vs. centralized approaches to expenditure control; and (ii) accrual account vs. cash basis account, as reform sequencing. She also questioned whether there was donor agreement on which option would be most suitable to the Mozambique situation. The speaker responded that this had to be country specific and that whilst a decentralization strategy might give potential for greater efficiency within spending units, it might also increase risks for misuse because of capacity constraints. Good reporting from each spending unit might prevent such risks. It is thus important to look at the balance between risks and recipient capacity. He was of the view that accrual accounting was only an option where capacity allowed and then only in a phased, long-term programme. Regarding the issue of donor's understanding of accounting models, the speaker stated that it was difficult for donors to be fully appraised on the technical issues and that it was important for them to get the right advice when faced with options and decisions.
- A participant questioned whether there was political opposition against PFM reform from some groups inside the government. The speaker responded that he did not detect any opposition and that the project had managed opposition relatively well but that there had been differing views on approach and prioritization.

Other issues

- A participant questioned whether there were impediments or obstacles imposed on CA's evaluation work by the Swedish agencies concerned. The speaker responded that there were no impediments. In fact, the two national agencies (audit and accounting) in Sweden were involved in the project as contractors, and had built good relationship with MPF and other contractors. He also commended Sida for their transparent approach
- A participant, who worked in Mozambique until recently, provided the additional information on SFMP and the country context. Mozambique experienced civil war for 16 years (until 1992), and its institutions including MFP had been extremely fragile. This is why the PFM reforms in the 1990s had met many difficulties, and donors came to recognize the need for better coordination in order to make their aid effective and reduce transaction costs. From 2000, nine donors (including Sweden) started to coordinate for PFM reforms. These also included the World Bank and other bilateral donors.

Summary by Luke Gander

- Lastly, Luke Gander summarized the important lessons for donors to support PFM reform as follows:
 - (i) the need to understand and work in the country-specific context;
 - (ii) the need to "get the basics right first" through diagnostic work as well as through implementation stage of assistance programs;
 - (iii) the need not to over-reach technically.
 - (iv) the need to develop a holistic concept. Even when an incremental approach is more appropriate and feasible from the capacity and absorbability point of view, it should still take place within an overall plan (or master strategy)

- (v) the need for PFM TA to be done in the context of the master strategy, even if provided bilaterally by a single donor.
- (vi) the need to include a human resource management program with good incentives policies and techniques.
- (vii) the importance of considering the possibility of introducing techniques or methodologies, which can be upgraded in the future.
- (viii) the need for donor coordination. Donors should recognize that there are no other options than close coordination among themselves.

Reflection

GRIPS Development Forum

- The seminar presentation was very useful because the participants could share lessons from the Mozambique case, including factors required for the sustainable and effective implementation of PFM reform programs. Key lessons emerging from the seminar include: (i) the design of a PFM reform program should be holistic, based on a comprehensive diagnostic of the nature of the problems and include both institutional and technical components; (ii) it is critical for donors to share the philosophy and visions for a reform program with a partner government; (iii) donor assistance to PFM should be based on gradual approach so that a partner government can absorb the assistance; and (iv) donor(s) and a partner government should be sensitive about controversy, which might arise from impatience for improvements, lack of coordination, personal conflicts and so on. Thus, it is critically important for donors to better understand the country-specific context.
- All of the above lessons can be greatly affected by the country-specific context and behavior of each donor active in the field. Therefore, we consider it necessary to continue accumulating knowledge and insight into the PFM reform experiences in other partner countries so that Japanese aid practitioners can draw implications for designing PFM assistance program. Additional case studies, which shed light on the above aspects, including the views of partner countries on donor coordination, could be potential candidates for future GRIPS PFM seminars.

Crown Agents

- Crown Agents would like to record their thanks to four parties. Firstly, gratitude to the Mozambique Ministry of Planning and Finance who provided every facility to assist the evaluation. Secondly, indebtedness to SIDA for their openness and transparency in commissioning the evaluation and for their real desire for lessons to be learned. Thanks are due too, to the participants for their kind attention during the seminar and for the lively discussion that ensued – something that makes a seminar of this type so worthwhile. Finally, appreciation to GRIPS for their initiative in hosting these seminars, for all the arrangements made during the week and for their hospitality. It is hoped that the output from the seminar will prove useful to the Japanese ODA as the agencies increase their involvement in PFM issues.

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