

The UN System and New Aid Modalities

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Acronyms

AfDB	African Development Bank
CABS	Common Approach to Budget Support (Malawi)
CD	Capacity Development
CIDA	Canadian International Development Agency
DBS	Direct Budget Support
EU	European Union
GBS	General Budget Support
GNI	Gross National Income
JICA	Japanese International Cooperation Agency
MFA	Norwegian Ministry of Foreign Affairs
MOU	Memorandum of Understanding
MWK	Malawi Kwacha (national currency)
MZM	Mozambican Meticaís (national currency)
NAC	National Aids Commission (Malawi)
ODA	Official Development Aid
ODI	Overseas Development Institute
OECD	Organization for Economic Co-operation and Development
OECD-DAC	Organisation for Economic Cooperation and Development, Development Assistance Committee
PAF	Performance Assessment Framework
PARPA	Plano de Acção de Redução da Pobreza Absoluta (Action Plan for the Reduction of Absolute Poverty)
PRSP	Poverty Reduction Strategy Paper
SBS	Sector Budget Support
SWAp	Sector-Wide Approach
UN	United Nations
UNCT	United Nations Country Team
UNDAF	United Nations Assistance Framework
UNDG	United Nation Development Group
UNDP	United Nation Development Programme
UNFPA	United Nations Population Fund
UNICEF	United Nations Children's Fund
USAID	United States Agency for International Development
USD	United States Dollars
WHO	World Health Organisation

1 Executive Summary

International development assistance is undergoing a transformation, emphasising greater national ownership and the harmonisation and alignment of donor programmes with the development priorities of recipient countries. Principles behind the transition have been outlined in the Paris High-Level Forum on Aid Effectiveness (2005). New aid modalities are emerging to support implementation of the harmonisation and alignment agenda, among them Direct Budget Support in the forms of General Budget Support (GBS) and Sector Wide Approaches (SWAs). These modalities are the logical outcome of reform policies championed by the United Nations over the past two decades. However, their implementation erodes some of the organisation's traditional roles, programmes and funding sources. The UN system is, therefore, challenged to respond both in its country programmes and at the corporate level.

Norway is a strong supporter of both and the UN reform. In order to understand the UN system's current and potential roles, the Norwegian Ministry of Foreign Affairs commissioned Scanteam to review UN programmes in two countries where Direct Budget Support is well established, Malawi and Mozambique. The terms of reference direct Scanteam to assess the UN system's participation in the new modalities, perceptions of the UN system's role and performance held by key stakeholders, and to make recommendations that enhance performance.

The new aid environment creates significant opportunity for the UN, based on the UN system's universal mandates and synergies that can be developed within country teams. The UN can play a particularly meaningful role in working with development actors to manage both the transition between modalities and contradictions that are inherent within the process. However, the UN has been slow in responding to a fundamental shift in the aid environment that is already well advanced in countries such as Malawi and Mozambique. The harmonisation and alignment agenda has been developed at the same time as the UN has been focused on internal reforms. The organisation has lost some of its momentum and political space, and must make developing its response a matter of urgency.

The UN needs to accelerate the development of corporate policy and play a more assertive role in shaping the harmonisation and alignment agenda at the global level. Work on a policy and enabling framework within the UN system is at an early phase, particularly in relation to GBS. As one consequence, UN Country Teams in Malawi and Mozambique work in a context where policy is not well defined, and where systems and procedures have not been revised to enable their full participation. The absence of a framework is an obstacle to country teams as they attempt to manage the transition between aid modalities.

Poor performance is another issue. Donor agencies and government officials in Malawi and Mozambique believe that the UN Country Teams are not moving towards policy and programme interventions that strengthen government, but are still focused on a traditional project approach. There is also the perception that the UN did not have the human resource capacity to participate in policy dialogue, and that country teams in Malawi and Mozambique have made little progress on improving interagency coordination. There is an impression of duplication, interagency competition, an inability to combine resources, and a general sense of "one agency not knowing what the other is doing".

In turn, low performance was the most important factor shaping perceptions of roles that the United Nations can fulfil. Government and donor informants described the United Nations as one donor agency among others. They generally did not refer to the organisations' universal and impartial mandate, or the roles that this mandate should confer. Rather, informants often described the United Nations' potential contribution as filling singular "niches" or programme "gaps", these being characterised by the absence of other development actors rather than a strategic rationale. Donors also expected the United Nations to make a financial contribution to General Budget Support in order to participate in related policy dialogue.

The UN, however, is not a donor organisation and should not behave like one. Making a financial contribution to GBS would undermine the UN's impartiality since its relationship with government, donors and civil society would be defined by the conditionality established in the budget support agreement. The UN would then also be placed strategically as one small donor among much larger donors. Focusing on singular "niches" would on the other hand isolate the UN from its broader role.

Mandate and not money, therefore, should determine what role the UN plays in the new aid environment. The new aid environment offers the UN the potential to speak through the strength of its ideas rather than with money; to earn rather than buy its way into dialogue. The obstacle is the organisation's internal capacity to generate policy-level contributions. In this regard, the UN can only earn its place through performance improvements, for which neither money nor its mandate are a substitute.

UN Country Teams in Malawi and Mozambique have developed options on where they can add value, including potential new roles that are emerging. The UN can play a key role in monitoring the implementation of budget support modalities, and working to improve effectiveness. Areas of particular interest would include assessing the development and governance impacts that can be attributed to "new" modalities. Focus should be on how these are affecting the structures and processes which determine the ability of partner governments to take the leadership in national development. A second area is risk assessment and early warning. GBS concentrates aid into the central budget of the partner governments, potentially increasing the risk to all parties, since support can be frozen should the government fail to meet conditionality conditions, with significant risk to the country's economic stability. A third area is managing the contradictions emerging in the transition between modalities. In particular, donors continue to disburse large flows of off-budget assistance that work at a cross-purpose with the objectives of Direct Budget Support modalities. A key challenge in the transition will be to extend the coverage of assistance flows that are on-budget.

The UN can support new modalities through *system-wide* capacity development. The organisation's strong presence on the ground allows it to strengthen vital local capacities and link them to the centre. The UN's multi-agency structure should allow it to work across sectors and take a comprehensive approach which is often lacking. The UN could also play a role in capacity development related to political governance, focused particularly on the budgeting process.

Supporting Civil Society engagement in the development and implementation of policy should be another key area. Action would involve capacity building in civil society organisations, as well as facilitating their participation. Finally, the UN still has an important role to play in donor coordination. The UN would then be placed

strategically as one small donor among much larger donors. Focusing on singular niches would also isolate the UN from the broader role conferred by its mandate.

Recommendations

General Recommendations

- The UN should accelerate its policy response, at the corporate and agency levels, to the new aid modalities. Of particular concern is developing a position on GBS and whether the UN will make financial contributions at the national level.
- The emerging lessons from Malawi, Mozambique and other budget support pilot countries should be channelled into the corporate policy development process and given a place of special consideration.
- The UN could focus on areas related to political governance. These include monitoring the impact of “new” modalities on development outcomes as well as governance systems and processes.
- The UN Development Group and the OECD/DAC should discuss a global understanding on whether UN Country Programmes will make financial contributions towards general budget support, with the objective of supporting national-level discussions.

Recommendations on the United Nations’ Role in Malawi

- The UN system should review its country programmes, ensuring full implementation of the UN reform agenda in terms of joint programming to strengthen harmonization among agencies and alignment with the MDGs and national policies.
- The UN system must become better at informing the donor community about its real achievements in these same areas, since they do exist and are important.
- First responsibility for performance improvements lies with the UN Country Team itself. However, donor agencies and the UN system at large have a co-related responsibility to create positive enabling conditions. These include a structure of institutional and funding incentives that support transition within the Malawi country team towards the principles of UN reform and harmonisation and alignment.
- The primary value added of the UN system in any aid environment rests in its mandate. Strategic positioning of the Malawi country team must be based on an assertive interpretation of this mandate, backed up by performance. The UN must not focus on niche or gap filling roles.
- The UN system should *not* contribute financially to general budget support initiatives. Contribution would undermine the UN's impartial status. Rather, the UN should have observer status to budget support policy dialogue mechanisms, on the basis of its mandate and an understanding of non-contribution.
- The UN system should have a key role in monitoring the implementation of budget support modalities, and advocating for change with all parties where required.

- The UN system has a role in conducting risk assessment on budget support modalities, and offer policy advice on risk mitigation strategies. The role includes an early warning function, advising the Government of Malawi and donors of emerging problems, supporting the resolution of those problems and thereby reducing the vulnerability of all parties in a high risk environment.
- UN has a role in *system-wide* capacity development of state institutions. Building on the knowledge acquired in its role as an implementer, the UN could focus on building local capacity, and linking that capacity to the central government. Capacity development on political governance and to political parties may fall within the UN's mandate.
- The transition between aid modalities requires a change management strategy to ensure that vital services now being implemented by the UN are not lost.
- The UN can play a role in building the capacity of civil society organisations and facilitating their participation in the policy development and budgeting process.

Recommendations on the United Nations Role in Mozambique

- The UN Country Team in Mozambique has made important advances in harmonising its' planning and programmes with those of the government and donors. The country team deserves the support of the UN at the corporate level, as well as donors and government in Mozambique.
- The UN Country Team in Mozambique should harmonise the UNDAF timeframe of 2007- 2011 with the Government of Mozambique's Poverty Reduction Strategy timeframe of 2006- 2010.
- The UN system in Mozambique should not make a financial contribution to General Budget Support. Rather, the organisation should focus on developing areas of comparative advantage. First among these should be strengthening policy dialogue.
- The UN can support system-wide capacity development. The organisation's strong presence on the ground may position it to play a unique role in strengthening vital local capacities and linking them to the centre.
- The UN could play a role in capacity development related to political governance, focused particularly on the budgeting process.
- The UN can play a key role in monitoring the performance of all development actors in implementing the principles of harmonisation and alignment.
- The UN should coordinate a project monitoring off-budget aid flows to Mozambique, and their impact. The project should be developed in collaboration with government, donors and a national research centre, with the goal of extending the coverage of on-budget flows.
- Off-budgets aid flows should be considered an important element of performance risk, as they undermine the objectives of budget support. Risk assessment methodologies should be expanded to consider the impact of off-budget flows, and the contradictory nature of donor and government action.
- The UN should have a role in donor coordination, ensuring that principles of harmonisation and alignment are implemented across the development community and not just among PAP members.

2 Background and Introduction

Development assistance is undergoing a transformation, emphasising greater national ownership and the harmonisation and alignment of donor programmes with the development priorities of recipient countries. The conceptual framework for the shift is outlined in the UN Millennium Development Goals (2000) and operationalised through the Rome High-Level Forum on Harmonisation (2003) and the follow on Paris High-Level Forum on Aid Effectiveness (2005). New modalities are emerging to support implementation of the harmonisation and alignment agenda, among them Direct Budget Support (DBS) modalities in the form of untied General Budget Support (GBS) and Sector Wide Approaches (SWAs).

The UN system is challenged to respond to the changing aid environment, both in its country programmes and at the agency and corporate levels. The new modalities are the logical outcome of reform policies that have been championed by the UN over the past two decades. However, their implementation erodes some traditional UN roles, programmes and funding sources. At the country level, the UN finds itself outside of substantive policy discussions, with actors such as the World Bank becoming the primary dialogue partners with recipient governments. Policy and administration frameworks are not adequate for full participation. The strategic positioning of the UN and the value added it can bring to the “new” modalities is still being defined.

Changes to the aid environment provoked by the harmonisation and alignment process are likely permanent. As one UN study observed, “while the form and content of [the new modalities] will most probably change over time, the fundamental principles associated with them appear to be here to stay” (Vidal et. al., 2004: 19). In this regard, UN country programmes in Malawi and Mozambique are interesting examples of programmes adapting to the new aid environment that may hold lessons for the broader UN system.

2.1 Objectives of the Study

The UN Section of the Norwegian Ministry of Foreign Affairs (MFA) is developing its empirical understanding of the UN system’s current and potential roles in the new aid environment. Towards this objective, the Ministry commissioned Scanteam to review UN System programmes in two countries where Direct Budget Support programmes are an established part of the aid architecture, Malawi and Mozambique.

The Terms of Reference (TOR) direct Scanteam to identify comparative advantages that the UN can bring into the new aid environment, as well as obstacles to the organisation’s effective participation. More specifically, Scanteam was asked to assess:

- The UN system’s participation in new aid modalities, including Direct Budget Support, Sector Wide Approach programmes and other modalities as relevant;
- The perceptions of the UN system’s role and performance held by key stakeholders; and
- Make recommendations to enhance performance in these two areas.

The full TOR are attached as Annex A.

2.2 Review Process

The study was undertaken in four phases between December 2004 and July 2005:

- An initial literature and document review, begun on signing of the contract in December 2004
- Field missions to Malawi and Mozambique in February and March, 2005
- Writing of the draft, done in Oslo and Maputo, Mozambique between March and May, 2005.
- Circulation of the draft to stakeholders, review of comments and writing of the final report in July 2005

2.2.1 Document review

The literature search focused on general reference material related to the harmonisation and alignment agenda, Budget Support and Sector Wide Approach programmes, and concept documents from the donor and UN agencies outlining options for the UN's response to new modalities. On identification of the Malawi and Mozambique as the case studies, the Study Team searched country-specific literature. Additional documentation was gathered during the field mission and the draft writing process. Of particular value were the UN's response to the Paris *High-Level-Forum on Aid Effectiveness* and evaluations of budget support modalities in Mozambique¹. See Annex C for a complete list of documents consulted..

2.2.2 Field Missions to Malawi and Mozambique

The Review Team conducted field research in Malawi from 14 to 19 February 2005 and in Mozambique from 25 February to 07 March 2005. The team met with a total of 85 informants in both countries, representing the donor community, the Governments of Malawi and Mozambique and the UN system. There was only one meeting with a civil society organisation, working in Malawi's health sector (see Annex B for a complete list of informants).

Initial findings were presented to stakeholders in a workshop at the end of each country mission. The workshops served as a quality assurance mechanism, allowing stakeholders to confirm the accuracy of information and make substantive comments that have been considered in the drafting process. These meetings had the added value of providing a venue for the exchange of views between stakeholders.

2.3 Methodology

Table 1 presents the methodology used, as determined by the scope of study. The TOR asks that the *perceptions* of stakeholders are gathered through the interview process, as well as empirical information related to policy and programmes. There has been an attempt to support conclusions with documentation and empirical data, but this was not always possible given time limitations and the absence of clear data on some issues.

¹ Additional sources were found at www.undg.org, www.aidharmonization.org and the UNDP's country pages.

Table 2.1: Methodology and Information Sources

Scope	Information Required
Identify new aid modalities used in the country context, including SWAps and General Budget Support	Review of OECD/DAC and donor documentation to identify trends in the harmonisation and alignment agenda, and related aid modalities Review of country-specific donor frameworks (bilateral and multilateral) Specific programme documentation related to PRSPs
Review the UN system's policy on new aid modalities at the institutional and country levels, as well as the administrative and programme frameworks through which participation is implemented	Review of UN policy framework, at the HQ, agency and country levels, to identify policy trends. Note policy discrepancies between the country and corporate levels. Review of administrative frameworks that facilitate or hinder participation. Interviews with stakeholders on interpretation of policy and administration.
Review the UN system's participation and performance in these modalities, as part of the overall country programme	Review programming documentation for information on actual participation in modalities. Interviews with stakeholders on programme development. Review of country evaluations and other reporting .
Assess the perceptions held by key stakeholders, including within the UN system, other donors and government, of the UN's role and performance	Develop standardised interview guidelines to ensure consistency of information Interviews with stakeholders, based on conclusions of the documentation review
Assess how these perceptions affect programme implementation	Synthesis and analysis of interview findings Validation with stakeholders at the end of mission workshop
Identify comparative advantages that the UN can bring to participation in these modalities, and where that participation might not be appropriate	Synthesis of overall review
Identify obstacles to effective participation, as well as opportunities through which participation can be enhanced	Synthesis of overall review Validation of findings with stakeholders at the end of mission workshop Validate findings through stakeholder reviews of the draft report

2.4 Review Team and Acknowledgements

The Study Team consisted of Karstein Haarberg (team leader), and David Gairdner. The team received the full, active and constructive support of the UN Country Teams in Malawi and Mozambique. In particular, the team wishes to acknowledge the contributions of Mr. Michael Keating, UN Resident Coordinator for Malawi, and Ms. Marylene Spezzati, UN Resident Coordinator for Mozambique, and Mr. Terence Jones at Bureau for Policy Development, UNDP/New York. The Team also wishes to acknowledge the support of the Norwegian Embassies in Malawi and Mozambique, and Mr. Tom Eriksen, Head of the UN Section of the MFA in Oslo. While receiving full support from all stakeholders, the Study Team alone is responsible for any errors of fact, interpretation or omission that appear in this report.

3 New Aid Modalities

The terms of reference note that a fundamental shift is taking place within the architecture of international development assistance. The movement is towards:

- The *harmonisation* of efforts within the donor community, promoting coordination and collaboration while simplifying policies, procedures and developing common standard; and the
- *Alignment* of assistance with the national development priorities of partner countries.

The trend is away from the delivery of aid through donor-managed projects, many of which are “off-budget”.² It is driven by a conceptual shift in development assistance that places emphasis on building national capacity for good governance and poverty reduction, as opposed to the more market-based approach of the 1980s and mid-1990s. In this context, there is a greater interest in policy-based partnerships and strengthening national governance institutions and processes. There is also a need for new modalities that can absorb projected increases in aid flows to partner governments, as the capacity of traditional modalities is saturated and can not be effectively scaled up.

The conceptual shift is accompanied by broad dissatisfaction with the impact and cost effectiveness of traditional aid modalities:

- Lack of common objectives within the donor community around which a substantive policy dialogue can take place with partner governments.
- Failure to build national development capacities. This includes not only government institutions, but also an active civil society able to create internal demand for government action on development issues.
- Fragmenting the process of setting national development priorities and the government’s ability to manage resources through the state budget process. Potential impacts include undermining the capacity of state institutions and distorting governance and budgeting process, including lines of accountability between the executive branch of government, ministries, parliament and citizens.
- Creating “islands of development” that have limited impact beyond the immediate beneficiaries. Often, projects cannot easily be scaled up or replicated in other areas.
- Lack of sustainability, when projects do not have the support of partner governments and depend on external resources and expertise.
- Focusing on areas of donor rather than national priority may result in under-funding of priority areas.

² “Off-budget” refers to projects and programmes negotiated directly between a government ministry or non-governmental organisations and donor agency. Revenues are not recorded in central accounts, undermining the partner government’s ability to manage resources and allocate them towards priorities. Off-budget resources may exceed those disbursed through the state budget system, as remains the case of Mozambique (Hodges et. al. 2004: 7-9).

- High transaction costs for donors and partner governments in maintaining multiple, unconnected and small impact initiatives. Often noted are the high number of donor missions and the demand for separate account, all of which consume scarce government resources.

Direct Budget Support modalities have emerged in response to these and other factors. The OECD policy paper "Shaping the 21st Century" (1996) reflected the emerging political consensus among the donors about the need for *one* set of common goals, and making them monitorable. This was taken forward into the UN's *Millennium Development Goals* (MDGs) (2000) that establish the targets for reducing poverty by 2015. As a step towards meeting the MDG targets and improving aid performance, donor and partner governments agreed to the *Rome Declaration on Harmonisation* (2003). The subsequent *Paris Declaration on Aid Effectiveness* (2005) reaffirms the commitments made in the *Rome Declaration* and establishes specific targets, timetables and indicators for their implementation, to be assumed by both donors and partner governments. The same development principles are reflected in the *New Partnership for Africa's Development*, which focuses on poverty reduction through strengthening good governance and African leadership.³

The principles of harmonisation and alignment outlined in the Paris Declaration include:

- "Strengthening partner countries' national development strategies and associated operational frameworks (planning, budgeting and performance assessment).
- Increasingly alignment of aid with partner countries' priorities, systems, and procedures, helping to strengthen their capacities.
- Enhancing donors' and partner countries' respective accountability to their citizens and parliaments for their development policies, strategies and performance.
- Eliminating duplication of effort and rationalising donor activities to make them as cost-effective as possible.
- Reforming and simplifying donor policies and procedures to encourage collaborative behaviour and progressive alignment with partner country priorities, systems and procedures.
- Defining measures and standards of performance and accountability for partner countries..." (Paris Declaration, 2005).

Donor signatories are committed to integrating the principles of the declarations into national development assistance policies. For Norway, commitments assumed under the Rome Declaration are reflected in the April 2004 White Paper, *Fighting Poverty Together* (Norwegian Foreign Ministry 2004c). Partner countries also assume a set of clear responsibilities within the declaration framework. Partners agree to exercise leadership in developing and implementing strategies through broad consultative processes with national society, assume responsibility for implementation of those strategies and take a lead role in coordinating donor assistance. These provisions move partner governments towards internationally accepted standards of good

³ <http://www.nepad.org/2005/files/inbrief.php>

governance. The development of nationally owned *Poverty Reduction Strategies* (PRSP) has strengthened the process.

The MDGs have been integrated into donor policy frameworks. In Malawi and Mozambique the goals also provide the basis for national development plans being implemented through their respective Poverty Reduction Strategies. In contrast, the process of harmonisation and alignment has been largely driven by donors and partners coming together within the Development Assistance Committee of the Organisation for Economic Cooperation and Development (OECD-DAC).⁴ While the UN system has been an observer to the two declaration processes and the DAC Working Party on Aid Effectiveness and Donor Practices, it has not been a principle actor.⁵

At the same time, the UN system has been undergoing its own internal reform process, leading towards the September 2005 summit to review progress on the MDGs. The report of the UN High Level Panel on Threats, Challenges and Change, *A More Secure World: Our Shared Responsibility* (2004a) and the Secretary General's report, *In Larger Freedom, Towards Development, Security and Human Rights for All* (2005), are cited by the United Nations Development Group (UNDG) as of particular importance, including for creating enabling conditions for the participation of UN Country Teams in budget support modalities at the national level. However, the UNDG acknowledges that the process has been "inward looking and did not benefit from the broader harmonisation and alignment debate or engagement with the wider development community" (UNDG, 2005a).

The UN system, therefore, is arriving late to the process initiated by the Rome Declaration. The UN is challenged to:

- Establish the organisation as an actor in the broader harmonisation and alignment process, where the agenda has been largely set by donor agencies working in collaboration with partner governments.
- Develop capacities that are relevant to the requirements of harmonisation and alignment.
- Ensure that the internal policies and procedures of UN's agencies are compatible with those of harmonisation and alignment. In particular, policy frameworks and procedures at the corporate and agency levels will have an effect on the ability of UN Country Teams to participate in new modalities at the national level.
- "Add real value in the context of development assistance that is focused on national institutions" (Vidal et al, 2004; 19). This is not simply a question of defining singular "niches" for service delivery in which the UN may have a comparative advantage in relation to other development actors. Rather, the UN must consider its strategic positioning in relation to the organisation's mandate.

⁴ See DAC Working Party on Aid Effectiveness and Donor Practices, <http://www.oecd.org/department>

⁵ The UNDP served as a co-sponsor of the Paris High Level meeting.

3.1 What are the “New” Aid Modalities?

A new set of development assistance modalities are emerging to support implementation of the harmonisation and alignment agenda, in particular General Budget Support (GBS) and Sector Wide Approaches (SWAp). SWAps emerged in the mid to late 1990s and forms of budget support have been used for decades. However, the popularity of these modalities has accelerated in recent years, as the development strategy on which they are founded has evolved significantly. Direct Budget Support modalities, therefore, are often referred to as being “new”, in contrast with the “old” modalities of a donor-driven project approach.

3.1.1 General Budget Support

GBS (GBS) is untied development assistance provided directly to a partner government. Budget support adds to national resources available for allocation through the government’s normal budgeting process. The objective is not simply to provide resources. Rather, assistance should strengthen the budget process and public finance management systems, linking resource allocation to nation development policy and building up the state institutions responsible for defining policy and carrying out its implementation.

The *Inception Report* of the ongoing *Joint Evaluation of General Budget Support*, led by the University of Birmingham’s International Development Department (2005; 3) brings together “new” and “old” aid modalities into one common system, giving a holistic presentation. It also builds on work done by the Evaluation Network of the OECD-DAC, which appears to have broad acceptance.⁶

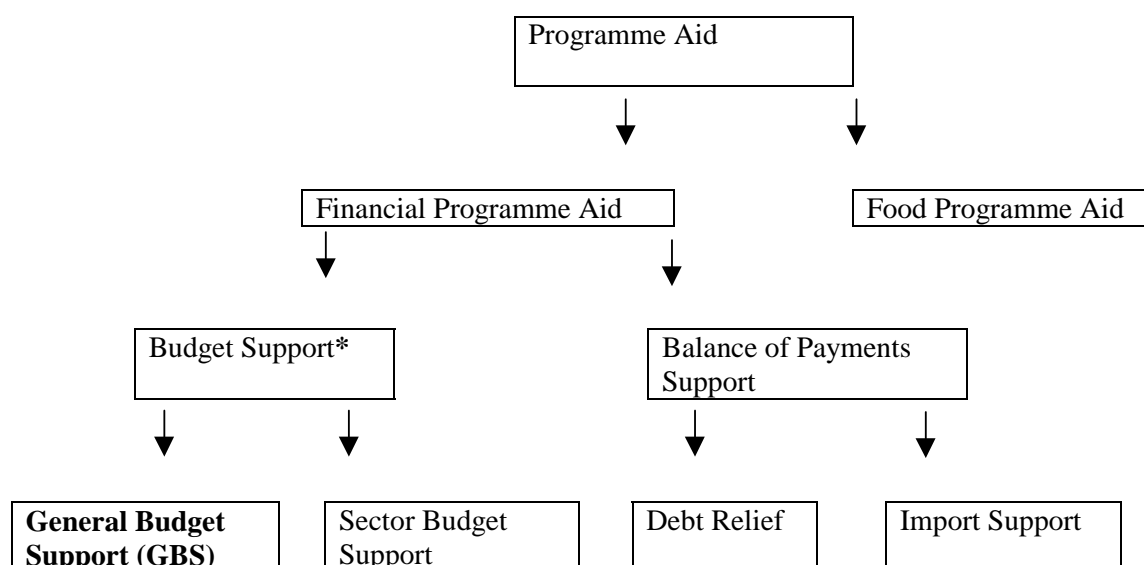
“Programme aid can be divided into food aid and financial programme aid. Financial programme aid includes both budget support and balance of payments support (such as debt relief and import support). Budget support in turn can be divided into sector budget support and general budget support (GBS).

The general characteristics of budget support are that it is channelled directly to partner governments using their own allocation, procurement and accounting systems, and that it is not linked to specific project activities, hence its often called Direct Budget Support. All types of budget support include a lump sum transfer of foreign exchange; differences then arise on the extent of earmarking and on the levels and focus of policy dialogue and conditionality.” (UB/IDD 2005, 3)

The International Development Institute notes further that GBS “covers financial assistance as a contribution to the overall budget with conditionality focused on improving public financial management and the effectiveness of the overall budget. GBS is direct, meaning that the currency provided generates an amount of local currency of equivalent value, but without any requirements regarding the justification of the use of the foreign exchange in the form of import documentation, as free convertibility of the domestic currency is permitted. GBS funds are in principal un-earmarked in the sense that the funds may be virtually accounted for against certain sectors but there are no formal limitations on where funds may actually be spent.

⁶ See Evaluation Framework for General Budget Support (May 2004), DAC Network on Development Evaluation, <http://www.oecd.org/document/>. The OECD-DAC definition of DBS is used in the *Joint Evaluation of General Budget Support; Tanzania 1995- 2004* (ODI, 2004).

However the precise nature and definition of GBS may differ among donors, among partner countries and over time” (UB/IDD 2005; 4).



* Referred to as direct budget support in the *Evaluation Framework*.

Figure 1: Aid modalities

In this context, a GBS programme usually comprises four elements:

- The funds, which in most cases are disbursed in different tranches linked to the fulfilment of objectives.
- Policy dialogue between the partner government and contributing donors. The granting of support is tied to active donor participation in review of the government's economic and development strategies, and monitoring of performance. One aspect is fiduciary risk assessment, in the form of evaluation of public finance management and accounting systems.
- Conditionality attached to the support, specified in a Memorandum of Understanding (MOU) and the mechanisms that the MOU establishes for monitoring performance.
- Technical assistance and capacity building activities, which are often linked to public finance and expenditure management.

As a variation on General Budget Support, Sector Budget Support (SBS) covers financial aid earmarked to a specific sector or sectors, with conditionality relating to those sectors. Additional sector reporting may augment normal government accounting, although the means of disbursement is also based upon government procedures.

3.1.2 Sector-Wide Approaches (SWAp)

Sector-Wide Approaches (SWAp) are used to reduce the fragmentation caused by multiple sources of donor funding within a government ministry. In particular, a

SWAp can reduce the amount of “off-budget” resources within a sector, and bring them into the partner government’s budget and planning process. Donors collaborate with a government-led programme implemented across a defined sector, such as education, health or agriculture. As a SWAp evolves and confidence is built between donors and the partner government, sector programmes can be a step toward providing greater untied budgetary assistance support. Even established SWAps can be in the process over time of deepen policy dialogue, expanding coverage of the sector to make it more comprehensive and bringing more funds into co-ordinated arrangements.

SWAps are considered an *approach* rather than a concrete mechanism, with their form varying by country, sector and context. In this regard, UNICEF describes them as “a dynamic process rather than on end point”, which can be expected to evolve with the overall development environment” (UNICEF 2004). A review of documentation and programmes in Malawi and Mozambique found that SWAp does ideally have the following characteristics:

- A sector-wide policy, in which government takes responsibility for setting policies, priorities and standards that apply to public activity in the sector, including those financed by international donors. The SWAp can be a forum for engaging and coordinating policy dialogue, with donors and national development stakeholders influencing resource allocation.
- A common approach adopted by donor agencies within the focus sector. External resources are coordinated with national plans. The process should move towards reliance on partner government procedures to disburse and account for funds, strengthening national capacities. The partner government should also take growing responsibility for coordinating donor activity.
- There is a mechanism to ensure the predictable of funding for activities falling within the agreed policy framework. At the same time, a performance monitoring system evaluates progress towards sector objectives.
- Government moves toward broad-based consultation with development actors in defining sector policy, including within the political system (parliament and opposition parties), civil society and the private sector. This function is important for creating an internal demand for development action.
- All significant funding for the sector supports a single policy and expenditure programme, under government leadership and with participation of key national and international stakeholders.

SWAps are not the equivalent of Sector Budget Support or budget pooling arrangements, such as “basket” funding. This distinction is important and remains a source of confusion. At various stages of a sector programme appropriate forms of assistance may include: technical assistance, an earmarked project, commodity support, pooling of funds and untied budget support. SWAps, therefore, are a relatively flexible funding approach. They may be more open to participation from development actors that do not have the resources or mandate to participate in GBS schemes.

3.1.3 Other modalities

Budget support and SWAps are commonly regarded as the “new aid modalities”. However, other modalities being developed under the principles of harmonisation and alignment include pooled-funding and so-called “basket funding”. Common Basket

Funds are arrangements where donors provide funding to a common basket, to be spent by specific agencies of government on agreed programmes. Funds do not pass through the national treasury following normal budget procedures, but rather are held in separate bank accounts and transferred directly to concerned agencies. Separate reporting and accounting procedures apply.

Common Basket Funds are, therefore, a sub-set of Pooled Funding. Donors subscribe to a common fund to support a project or programme. The “basket” may be earmarked to particular uses, but different donor contributions are not distinguished from each other. This contrasts with parallel funding or co-financing, when more than one donor finances the same project or programme, but different donors finance different elements and their funds are kept separate.

4 UN Policy Development

This chapter addresses the UN policy framework on DBS at two levels:

- UN corporate policy, drawing on work being done within the UNDG.
- Specific UN agencies with programmes in Malawi and Mozambique.

The UNDG is an interagency forum that brings together 25 organisations to develop policy and strategy responses to the changing aid environment, among other objectives. This work is reflected *inter alia* in the UNDG's *Statement to the High Level Forum on Aid Effectiveness* (2005a), *The Role of the UN System in a Changing Aid Environment: Sector Support and Sector Programmes* (2005b), *Official Development Assistance as Direct Budget Support* (Vidal et. al. 2004), as well as various working documents, including the *UNDG Action Plan - Implementing the Paris Declaration* (July 2005).⁷

The UNDG is concerned with the harmonisation and alignment agenda, and considers the matter a high priority. Initial work has been done within the UNDG on developing a policy response, the outline of which was presented at the Paris High Level Forum (2005a). In its statement to the forum, UNDG also advised that its member agencies have “recently agreed to amend any rules and procedures that inhibit individual agencies from participating in sector-wide approaches and direct budget funding arrangements, and to increase support towards the development of national capacities for the management of these modalities” (2005a; 2). The policy framework is further developed in the *UNDG Action Plan - Implementing the Paris Declaration* (July 2005), which goes a long way to linking UN reform and country level planning with the broader harmonisation and alignment agenda.

The UNDG has developed *The Role of the UN System in a Changing Aid Environment: Sector Support and Sector Programmes* (2005b), which lays out a clear framework supporting participation in SWApS. The SWApS are a good entry point into the broader harmonisation and alignment process. Various UN agencies have policies in this regard, and are active participants in SWAp processes.

On the other hand, there was no clear UNDG position on GBS modalities at the time of writing the final draft. The July 2005 action plan makes reference to a UN role in assisting partner governments in developing the capacity to manage new aid modalities, such as budget support. However, the statement does not address key issues facing country teams in Malawi and Mozambique. These begin with whether the UN should make a financial contribution to budget support and, based on the contribution decision, what role it should play in related policy dialogue.

The UNDG has identified five areas where the UN system may have a distinct role or may add value in a Direct Budget Support environment. Among them:

- Assisting partner countries in developing their capacities to manage development assistance.
- Being an advocate of the MDGs in the formation of development strategies.
- Spearhead initiatives to scale up programmes to meet the MDGs, especially at the local level and in post conflict situations.

⁷ Documents are available at <http://www.undg.org/content.cfm?id=486>

- Providing evidence-based policy advice within “new” modality processes.
- Acting as a bridge and neutral convener between development actors, including the state, donors, civil society and between warring parties (UNDG 2005a).⁸

The practical application of these five areas in a field context requires further development. UN staff in Malawi and Mozambique did not make specific references to the UNDG’s work, although they shared common perceptions of possible roles.

Policy work at the corporate level on Direct Budget Support is, therefore, at an intermediate phase, with the *UNDG Action Plan - Implementing the Paris Declaration* representing an important advance. However, the UN has been slow in responding to a fundamental shift in the aid environment that is already well advanced in Malawi, Mozambique and other countries. The harmonisation and alignment agenda has been developed in the OECD/DAC donor forum, at the same time as the UN has been focused on internal reforms. The organisation appears to have lost some of its political momentum and space, and will be challenged to find distinctive roles where the contributions of other development actors have already been defined.

4.1 Mixed Coverage of “New” Aid Modalities

The actual use of GBS varies along two dimensions. First, coverage *across* countries is still uneven and focused on a limited number of countries. The implication for the UN system is that not all country programmes will be affected in the same manner. The daily operations of UN Country Teams working in budget support pilot countries will be directly affected, while country teams working in “old” aid environments may not be facing these changes yet. Country teams in “new” environments could, therefore, find themselves in a *de facto* pilot situation within the UN system. The policy, practice, administrative frameworks and corporate culture that shape their response may not be clear, posing an obstacle to participation. These country teams will be required to push their concerns up the policy chain at the same time as they manage the transition in their national contexts.

Second, “old” and “new” modalities *co-exist within the same country environment* and must be managed simultaneously by all development actors. Even in pilot countries, donor contributions to GBS represent much less than 50 percent of overall bilateral assistance. Mixing delivery “old” and “new” mechanisms is both a consequence of a transition between modalities and a form of risk mitigation. For donors, the fiduciary risk associated with budget support is offset by the opportunity to engage in policy dialogue with partner governments, and by the potential improvements in government performance that come from this process. However, donors remain averse to placing all their resources into public finance systems that have not been fully proven. A significant amount of the development assistance envelope may be delivered through “old” modalities, much of which is off-budget and beyond the partner government’s ability to link into national development priorities.

For that matter, partner governments in Malawi and Mozambique may not have the capacity to manage a sudden further shift of resources to being “on-budget”. Given that budget support is a fairly recent innovation, its actual impact may not be well

⁸ While not including on the Paris list, this function has been referred to as an “honest broker” role in other UNDG documents.

enough understood to warrant further growth at this moment. A transition strategy based on capacity development and impact monitoring are required.

Donor coordination around budget support remains an issue. There are important donors that do not participate in GBS, such as Japan (JICA) and the US (USAID) because they are constrained from participating by their respective financial and political accountability systems. JICA and USAID therefore continue to programme through “old” modalities, albeit taking to account harmonisation and alignment principles.

The donor community, partner governments and the UN system, therefore, must balance the requirements of working with “old” and “new” modalities. Where a shift between modalities is taking place, development actors will be challenged to ensure that:

- Vital work occurring in a project or programme framework is not lost in the transition between modalities, requiring a change management strategy.
- “Old” and “new” modalities do not work at cross-purposes. While budget support programmes are intended to strengthen partner governments, “old” modalities may effectively undermine their capacity.

The corporate and agency-level policy on SWAp is more clearly defined. These programmes are more common, have been in use longer and directly affect the work of specific agencies. In particular, the *The Role of the UN System in a Changing Aid Environment: Sector Support and Sector Programmes* (2005b) and agency policy statements from UNICEF and UNFPA encourage active participation in SWAp, as well as outline agency roles. Furthermore, the structure of a SWAp provides more opportunity for participation within the existing policy and resource framework of individual agencies. While GBS modalities require a coherent and unified response at the country level, individual agencies are able to engage in a SWAp. There are fewer political or administrative obstacles.

There is also a large body of experience and “best practice” literature that country-level programmes can draw on in designing their participation, which does not yet exist for General Budget Support. That information appears to be widely circulated and readily available to agencies considering SWAp participation. SWAp, therefore, have the potential to be a major entry point for the UN system into improved coordination with development partners.

4.2 United Nations Role within New Aid Modalities

Given the UN's global presence, its universal mandate based on the fundamental charters of the UN system, the special role of the UN in promoting and tracking the MDGs, its Rights-based development platform, and other overarching roles that the member states have conferred on the UN operational system, the UN should play a more assertive role in shaping the harmonisation and alignment agenda.

The UN may be missing opportunities in how the organisation's corporate position is being defined. On contrasting the principles of harmonisation and alignment as set out in the Paris Declaration and the UNDG's proposed five areas of comparative advantage, the team believes that the UN could place stronger emphasis on its role as an impartial, universally mandated organisation, and on the governance and capacity development issues central to the harmonisation and alignment agenda. The July 2005 *UNDG Action Plan - Implementing the Paris Declaration* goes some way towards

addressing these concerns, although time did not permit further discussion with stakeholders regarding its implementation.

The knowledge base on the impact of new aid modalities is limited, particularly in the case of GBS.⁹ However, the fact that the harmonisation and alignment agenda is emergent means that the knowledge and experience base on related modalities is also emerging. Some gaps relevant to determining a UN's role may exist around the five following areas.

First, the actual development outcomes that can be attributed to “new” modalities. This relates to various Paris Declaration objectives on enhancing the effectiveness of development assistance. The UN globally should be an important actor in monitoring progress and understanding impacts. The organisation could offer evidence-based policy advice to all parties, reinforce achievement and play a strong and visible advocacy role for change when it is required. Of interest will be the transition between modalities on the ground, and managing the contradictions that will be inherent in the process.

Second, the governance impacts that can be attributed to “new” modalities. Focus should be on how these can either strengthen or weaken the structures and processes that determine the ability of partner governments to take the leadership in national development. This point relates to the objective of “strengthening partner countries’ national development strategies and associated operational frameworks” (Paris Declaration, 2005). The UN certainly has a role to play in strengthening governance systems and processes through its programmes. Equally important, the UN could play a watch-dog function in the event that aspects of “new” modalities are proving detrimental to governance, or if “old” modalities work at a cross-purpose. This role would be played in full collaboration with donors, partner governments and national society. It requires a strong and politically independent country team, and is more proactive than the “honest broker” role being discussed.

Third, the impact of “new” modalities in supporting broad consultation within society. Do “new” modalities help create an internal demand for development policy by promoting an effective political system (including its parliamentary and political party dimensions) and an organised and active civil society? Or is the policy development focused either within the government and/or between government and the donor community? These questions relate to the objective of “enhancing donors’ and partner countries’ respective accountability to their citizens and parliaments...” (Paris Declaration, 2005). In particular, the UN system has a role to play developing the capacity of civil society and linking it into the policy process.¹⁰

Fourth, the UN may have a role in risk assessment and early warning. Budget Support modalities will generate new forms of risk that are not well understood. There is little discussion of them in the general literature, although country level programme documents were more specific. Budget support concentrates development into the

⁹ Several evaluations of budget support initiative have recently been completed or will be completed in the near future. The most important is the “Joint Evaluation of General Budget Support 1994 – 2004 (case countries Burkina Faso, Malawi, Mozambique, Nicaragua, Rwanda, Uganda, Vietnam), also several other relevant country reports. See Annex C for details.

¹⁰ See United Nations General Assembly, We the peoples: Civil Society, the United Nations and Global Governance, Report of the Eminent Persons on United Nations-Civil Society Relations, 11 June 2004, A/58/817.

central budget of the partner government. The process may generate new forms of risk to both donors and partner governments, particularly where the partner's financial management systems are weak.

If donors determine that the partner government has failed to meet performance requirements or respect the norms of good financial management, they may choose to freeze payments. In turn, freezing transfers to an aid dependent country may seriously affect programme delivery. These forms of risk have serious implications for both donors and partner governments. They require assessment, mitigation and an early warning function to alert all parties to looming problems. Again, the UN system could have a watch-dog or early warning role to play in relation to all development actors.

A final area emerging in the literature could be donor coordination and harmonisation. GBS focuses policy dialogue into the interaction between partner governments and those donors contributing to the modality. Important development actors may find themselves outside the dialogue process. The UN may be one of these organisations, as it does not contribute to budget support. As such, the organisation may not be invited to participate in substantive policy dialogue with the partner government on budget issues. However, this concern is not unique to the UN system, as important bilateral donors that do not contribute to general budget support also find themselves outside of the related policy dialogue, while much smaller donors participate and shape policy. Ensuring inclusiveness, essential to harmonisation and coordination, is a much broader donor/partner challenge and not unique to the UN system alone.

4.3 A Global Agreement on Budget Support

A corporate policy framework guides the work of country teams. It also provides a basis for the UN to negotiate a role with the donor community at the global level in support national level work. As an example, the country teams in Malawi and Mozambique are negotiating national-level agreements with the donor community and partner governments on participation in GBS mechanisms. A central issue is whether the UN should be required make a financial contribution to budget support as a condition of participating in related policy dialogue. The respective teams were negotiating from a position of relative weakness. There was no conceptual framework for the discussions and no consensus among the donors or partner governments on the potential role of the UN, if this was other than making payments. As will be discussed in the country sections of this report, the burden of negotiation has been placed entirely at the national level. In unequal circumstances, the country team in Mozambique has been able to negotiate a more favourable relationship with donors than their colleagues in Malawi, based on distinct understandings of the UN's role.

The position of both teams would have been strengthened if the UNDG had a global policy on GBS to which UN Country Teams, the donors and partner governments could all refer. Further, that policy should support discussions with the donor community at the global level on whether the UN should make a financial contribution to budget support. Key issues would be whether the UN should make a financial contribution to GBS initiatives, and if making such a contribution is a prerequisite for participating in related policy dialogue, or whether there is another basis on which the UN should be present on a non-contributing basis.

The presence of such an understanding would lift part of the negotiating burden from country teams, and help avoid the emergence of a series of inconsistent or conflicting national-level arrangements. It would also bring some consistency to how the donors

perceive the UN and its role, as there are significant differences in perception across donors and between Malawi and Mozambique.

- 1. The UN should accelerate its policy response, at the corporate and agency levels, to the new aid modalities. Of particular concern is developing a position on GBS and whether the UN will make a financial contributions at the national level.*
- 2. The emerging lessons from Malawi, Mozambique and other budget support pilot countries should be channelled into the corporate policy development process and given a place of special consideration.*
- 3. The UN could focus on areas related to political governance. These include monitoring the transition process between modalities, the impact of “new” modalities on development outcomes as well as governance systems and processes.*
- 4. The UNDG and the OECD/DAC should discuss a global framework on whether UN Country Programmes should make financial contributions towards general budget support, with the objective of supporting national-level discussions.*

5 Malawi Country Study

Malawi is one of the poorest countries in the world, ranking as country 165 out of 177 countries on the 2004 UNDP Human Development index (UNDP 2004). The country has experienced low economic growth rates over the past two decades, and a rapid increase in HIV/Aids prevalence. These problems are exacerbated by the country's structural vulnerability to economic shocks, and the fact that 65 percent of the population live below the nationally defined poverty line (IMF 2004; UNDP 2004).

5.1 Donor Assistance and the UN

The European Commission, UN and the World Bank are the major multilateral agencies to Malawi. The United Kingdom, Norway, Sweden, Canada, Germany, Japan, the Netherlands, and the United States are the major bilateral donors. Almost all donors are involved in a variety of programs ranging through agriculture, infrastructure, finance, the social sectors and the environment, with the common aim of reducing poverty.

Malawi is highly aid dependent. The World Bank reports that development assistance accounted for 29,8 percent of Malawi's Gross National Income (GNI) in 2003 (World Bank 2005). The recurrent costs associated with development and social programmes have traditionally been heavily supported by assistance (Fagernas et. al. 2004: 8). According to IMF (Table Two), the total aid grants to Malawi has increased from MWK nine billion in the 2001/2002 (IMF/World Bank) fiscal year to more than MWK 25 billion in the current fiscal year.

Table 1: Total Aid Grants to Malawi

Fiscal year	01/02	02/03	03/04 prog	03/04 est	04/05
Grants, MWK millions	9100	10675	22671	22611	25212
Programme aid, MWK millions	2544	1220	8177	4580	5418
Programme aid as % of grants	28 %	11 %	36 %	20 %	21 %

Source: IMF, Malawi-Staff Monitoring Report, (2004c)

Of these grants, programme aid (which includes GBS and other programme assistance) has increased from MWK 2.5 billion in 2001/02 to almost MWK 5.5 billion in the current 2005 fiscal year. The delivery of programme aid has been very volatile, as donors have frozen budget support to Malawi on two occasions. The increase in programme aid from 2001/02 to this year is roughly the same as the increase in total grants. However, if grant and programme aid are taken as a percent of GDP, levels show a relative increase.

Table 2: Grant and Programme Aid as a Percentage of Malawi's GDP

Fiscal year	2001/02	2002/03	2003/04 (est)	2004/05 (est)
Grants	6.9%	6.9%	12.5%	11.7%
Program	1.9%	0.8%	2.5%	2.5%

Source: IMF, Malawi-Staff Monitoring Report, (2004c)

5.2 General Budget Support

Policy dialogue with the Government is coordinated through a donor forum, the Common Approach to Budget Support (CABS). Membership in the CABS group has been limited to donor organisations that make a financial contribution to the budget support programme. The UN Country Team expressed a strong interest in participating in the CABS process, in recognition of the forum's importance. However, the UN lacks both the resources and institutional mandate to contribute, and has therefore not participated. The Government recently asked that the UN be present in CABS meetings in the capacity of an observer, and has begun inviting the organisation to meetings on that basis. The CABS is also considering whether the UN should be an observer within the donor group itself, along with the IMF, World Bank and the African Development Bank. The Government has requested that the UN be granted that status in the context of a joint framework for budget support co-operation.

Budget support payments to Malawi have been frozen on two occasions, the first time between 2001-2003 and then again in 2004. IMF and World Bank programmes were also affected. The withholding of payments had a significant economic impact, given Malawi's high dependence on international assistance. Among these has been a dramatic increase in domestic borrowing. The reason behind donor action was poor public finance management and allegations of corruption. International Monetary Fund staff reports describe "fiscal policy slippages", referring to significant unbudgeted expenditures related to the 2004 elections (IMF 2004a; IMF 2004b)¹¹.

The relationship between donors and government has stabilised somewhat since the 2004 elections. Donors reported signs of improved public financial management since the new government took office in May of that year. In their October 2004 review, CABS members concluded that "the new government has made an impressive start. The President's commitments to fiscal discipline and tackling corruption have been followed up with concrete actions..." (CABS 2004: 2). In this context, CABS members resumed budget support payments in 2004. CABS support comes with expressed concerns that include a call to restructure public financial management and accounting for past over-expenditures (CABS 2004: 4). The IMF and government agreed on a Staff Monitored Programme soon after the 2004 elections and World Bank disbursed under its suspended Structural Adjustment Credit in the second half of the year. Donors are willing to support the new government as long as the positive trend continues, with gradually increasing levels of support against improved performance.

Donors have been involved in budget support programmes, or similar modalities, to Malawi since the country's political transition in 1994. The trend is to increase budget support over time, although the donors will base their decision on assessment of the government's financial management performance (CABS 2004; DFID 2005). However, there do not seem to be any studies assessing possible results of such trends:

- The impact of budget support modalities on development performance in Malawi.
- Trends in the balance between "on-budget" and "off-budget" flows, which would show the extent to which donor assistance is being channelled through

¹¹ Also see CABS 2004 and DFID 2004.

central government processes. About 75% of grant flows in 2004 were non-programme.

5.3 United Nations and Budget Support

As noted, the UN does not contribute to GBS in Malawi. The possibility of making a financial contribution had been discussed within the country team, but did not appear viable in the near future, since the organisation does not have the financial resources to make a credible contribution, nor is there a corporate mandate that permits this. The actual policy framework was not clear, but the Resident Coordinator advised that a contribution to GBS would “likely not be permitted by New York at this time”. These restrictions are also understood by donor and government informants. There does not seem to have been a substantive discussion on whether it is *strategically appropriate* for the UN to contribute funding, considering its mandate and positioning in relation to other development actors.

The UN's inability to make a financial contribution to GBS means the country team has not participated directly in the CABS, current discussions on observer status notwithstanding. Participation in the CABS has been restricted to contributing agencies, not withstanding the World Bank and the International Monetary Fund which have observer status based on their significant lending to the country. USAID and JICA also remain outside of the CABS since their agency policies currently prevent them from participating in GBS schemes.

The CABS was described as a “crowded policy table and consensus is already difficult to achieve”. Donors believed that expanding to membership to non-contributing agencies would further complicate the group's internal dynamics. To the extent that government informants were aware of the issue, they agreed with the donor position.

5.4 Sector Wide Approaches (SWAps)

Sectoral donor working groups in the areas of economic management, poverty reduction, water and agriculture meet regularly. Work is ongoing towards common conditionality and joint financing arrangements. Donor harmonisation focuses on the health sector as well as in the area of HIV/Aids. Programmes were also being considered in the education, agriculture and justice sectors. Several donors have entered into delegated cooperation agreements or lead donorship agreements in Malawi. These arrangements exist at the level of country programmes (Norway and Sweden; Switzerland and the Netherlands), education (UK and the Netherlands), health (Norway and Sweden; Canada and Japan) water development (Canada and Japan), and energy (Germany and the Netherlands).

A SWAp has been in place in the health sector since later 2004, in which donors and government have agreed on reporting and accounting procedures. Participating donors are AfDB, DFID, EC, JICA, Netherlands, Norway/Sweden, UNFPA, UNICEF, USAID, WHO and the World Bank. In addition, the Government has developed a National Aids Strategy, to which some donors have pledged their support. The Malawi National Aids Commission (NAC) and a group of like-minded donors are developing a framework for HIV/Aids basket funding. The commission has been the recipient of USD 280 million in support and the UN system has played an important role in its creation and implementation of programmes.

In contrast to budget support, UN agencies have been active in SWAp programmes. The UN is by no means the largest SWAp actor in Malawi. However, the financial and technical contributions of UN agencies appear to be valued by other development actors. The technical contribution was considered particularly important, owing to the field-proven experience of agencies such as UNICEF. On the one hand, focusing on the technical aspects is an implicit recognition that agencies have limited financial resources. However, it demonstrates that the UN's potential valued added could lie somewhere other than with funding. As examples, the Study Team noted:

- The role of the UN's National Execution modality as a forerunning of SWAps.
- The organisation's contribution to the creation of the Health Sector SWAp, including through Essential Health package which is now a key element of the programme, and the procurement of health products.
- The UN's contribution towards creating the National Aids Commission, which is now the undisputed coordinating authority under the "Three Ones" principle.

There seem no obstacles to effective UN participation in SWAps other than those imposed by the organisations' capacity to engage. As well, UN corporate and agency-level policies are more clearly defined and supportive. There is no ambiguity concerning the organisation's support for the SWAp concept.

Table 3: UN Participation in GBS and SWAps

UN Org.	GBS and SWAp	Activity	Purpose	Regularity	Input	Funds contributed
UNDP	Budget Support	Observer at CABS meetings	Support GOM capacity in GBS	Ad-hoc	Advice and technical support when requested	N/A
Unicef	(SWAps) Health, Education and Water	Child Health, Women's Health, Youth Reproductive Health and Health Sector Reform Participating in the policy level dialogue for the development of SWAps for the education and water sectors.	Support to implementing CD in GOM and NGOs Support to program implementation Support to sector strategy papers Supporting the establishment of structures and capacities for SWAps. Development of framework papers and annual joint reviews	Signatory to the health sector SWAp MoU Full participant in all regular SWAps meetings,	Technical assistance through staff time in the social policy, planning, implementation and M&E. Providing specialised services in procurement	In education SWAp about USD 600,000 towards cost of establishment of the SWAp and the various joint sector reviews over 6 years since 1999. USD 7.2 mill in parallel funding for activities in Health sector.
UNFPA	SWAp	N/A	N/A	N/A	Regular participation at Health SWAp meetings.	Not yet decided on how much to contribute to the MoH.

Source: UN organisations in Malawi

5.5 Perceptions of United Nations Performance

All donor informants expressed support for a strong and active UN presence in Malawi, and demonstrated an openness to work with the organisation toward that end. Government officials in the Ministries of Health and Education expressed gratitude for the contribution made the UN system. They acknowledged the important role that the UN continues to play in Malawi, particularly in the area of technical expertise and programme implementation. The contribution of the organisation at this level was described as “unique and field-proven”.

There was a sense, generally expressed among informants, of positive change in the UN system. The change was attributed to the tone being set by the new Resident Coordinator, and follow up actions. Donors are interested in working with the UN to reinforce this trend. Many donors continue to engage UN agencies as an implementing partner for programmes, though there is a marked trend towards a reduction in those funds over time as donors increase their allocations to budget support modalities¹².

Despite the positive disposition, there was a general perception among donors and government officials that the UN suffers from poor performance. This has implications for the credibility of the organisation, as well as the manner in which informants perceive its future roles. There were in particular three areas that were identified as the key elements of performance: (i) the quality of programmes, (ii) movement towards the principles of harmonisation and alignment, and (iii) human resources.

5.5.1 Quality of Programmes and Implementation

Donors expressed strong concerns regarding the low performance and quality of some UN programmes. This comment was generalised to include the overall country programme, with some agency and programme exceptions.

There was also a feeling that programme implementation was poor. As a case in point donor informants cited monitoring of the 2004 elections, which were marred by allegations of fraud and corruption. Donors maintained that the UN's monitoring effort was not organised to acceptable technical standards, nor did they believe the UN took a strong political stand when confronted with irregularities. Rather, the organisation was perceived as being timid and too close to the Government of Malawi. According to one donor official, “the UN was just politically and technically too weak for the job [of election monitoring]”.

Low performance creates a credibility problem conditioning the willingness of donors to accept the UN in proactive *policy* roles that are the characteristic of a budget support environment. Donor and government informants usually described the UN as a *technical implementer* of programmes. Donors referred to singular “niches” or programme “gaps” that the UN might fill, these usually being characterised by the absence of other development actors rather than a strategic rationale. Some strategic level references were made to the UN playing an advocacy role in relation to international norms. However, these comments tended to be lacking in concrete content.

¹² Statistics on funds from donors to UN agencies were not available, but donors, government and UN officials all described the shift as significant with medium-term economic consequences for the UN in Malawi.

Regarding the UN system acting in “honest broker” and advocacy roles, as proposed by the UNDG (2005b), informants did not appear receptive. Government officials generally did not perceive the UN in this role. The comment from one donor official summarised the perceptions within that community: “[Honest broker is] a naïve concept. The UN might play that role in a country where the political road is bumpy, but not here in Malawi where the situation is stable”. Donors maintained that political dynamics were being managed within the CABS, and that there was no requirement for additional forums or actors.

On the advocacy and capacity development roles, another donor official said that “it is not enough to keep saying that [the UN] has policy expertise in governance or other issues. At some point you have to deliver, and the UN has just not delivered”. Again, the donor response was conditioned by the perception of low performance and weak capacity. One government official stated that the UN might have an advocacy role in balancing the power dynamic between the government and donors, as the latter was perceived as dominant, but this is a very different task: asking the UN essentially to support the Government, which is not necessarily an “honest broker” position. However, the official did not believe that the UN currently has the necessary political strength to be effective.

5.5.2 The United Nations and Harmonisation and Alignment

Donor and government informants do not believe that the UN has restructured its programmes consistent with the requirements of “new” aid modalities or the principles of harmonisation and alignment. This perception existed in sharp contrast to the UN’s own claim that significant progress has been made towards coordination and joint programming. Donor concerns in this regard had a strong influence on their perception of overall performance. Two factors were usually cited.

First, informants believed that the UN continues to focus on a traditional donor-driven project approach to delivery. Donors were frequently saying that UN agencies “act like big NGOs.”

There was a positive recognition of the UN's technical expertise and capacity to implement projects/programmes. However, most donor informants considered these projects to have a low or isolated impact, placed outside of the current trend. One donor official stated flatly that “projects are out. Gap filling [between requirement and government capacity] is out. Strengthening government is in. The UN doesn’t understand this yet.” Some government and donor informants went further to say activities should not be implemented if they fall outside of government systems.

On this point, UN informants expressed concern that vital programmes, such as child immunisation, would be lost in the absence of government capacity and a clear transition plan. But Ministry of Education and Ministry of Health officials were emphatic that some UN agencies use the services of NGOs or implement directly, and that these agencies programmed without the consent or knowledge of government, therefore undermining government-defined policy objectives, budgeting systems and leadership.

This hardly seems correct, since UN agencies work on the basis of country programmes negotiated and agreed with government. It is also clear that these cooperation agreements are in effect and that they were consistent with the government’s code of donor conduct. Nevertheless, these views were strongly held by some within the government.

Second, there was a strongly expressed perception among donors and government that the UN Country Team has not made sufficient progress on inter-agency coordination or joint programming, a concern acknowledged by some UN staff. Donors perceive the UN team as fragmented. They cited examples of duplication of effort or even competition between agencies. As one donor official noted, “the UN acts in units and not as a team.” The UN Country Team, therefore, was not seen as evolving in step with either the stated objectives of UN reform or the policy orientation of the donor community. The lack of a unified position was cited as a key factor in the perceived decline of the UN’s political influence. Donors did not appear aware of efforts within the national team to develop joint programmes around the MDGs, SWaps and other areas of work. They also did not bring up the role that the UN currently plays on political issues with the government that are related to budget support.

Donors expressed concerns that the incentive structure within UN agencies did not favour change. Here the UN may be caught between conflicting trends. Externally, the donors are moving towards the policy orientation outlined in the Paris Declaration. For agencies, the trend is reflected most concretely in the diversion of donor funding away from traditional areas of UN programmes.

At the same time, agencies encounter pressures from their head offices to implement agency priorities, which often means continuing with a project orientation. One example is the linking of project visibility to funding, a challenge encountered in particular by UNICEF. The UN agencies do not have large-scale core funding that would support moving to a policy focus, and instead must continue “selling” individual projects to the various donors as a means for mobilizing resources. Donor funding practices therefore do not provide the predictable funding base or incentive structure needed at the country programme level to support the UN moving towards sector programming and policy development.

5.5.3 *Appropriate Human Resources*

Moving from a project to policy focus requires a significantly different human resources profile. In contrast to the project management staff, donor agencies now engage qualified economists and specialists in public financial management. Donors have significantly enhanced their own country staffs with expertise in these and other areas, such as health or education. Donors do not depend on technical expertise that may have been previously come from the UN. Donor personnel work directly with government, often having better capacity than their government counterparts.

Donors and government expressed a general concern that the UN system does not have the qualified personnel needed to play a stronger policy role. A comment from one donor official was typical: “if [the UN] wants to be an actor, they will have to staff-up with qualified personnel”. The issue was recognised by the UN itself. UN managers pointed to the dilemmas they are facing: “the system forces me to keep the people that are here, regardless of whether they have the skills I need [to work on policy issues]... bringing in new technical expertise at the level we need would be very expensive, and I just don’t have the budget”.

5.6 United Nations Proposals on Strategic Positioning

While donors and government officials did not have clear proposals on a strategic role, the UN Resident Coordinator to Malawi presented several options that are

consistent with global policy being discussed by the UNDG, albeit more detailed and focused:

- *Risk assessment*, noting that budget support modalities may increase risk at two levels. First, fiduciary risk related to the government's management of public funds. Second, political risk related to political accountability at all levels (between the donors and government; government and the political system and with civil society).
- *Performance monitoring*, based on the United Nations' impartial and universal mandate. This included the performance of both government and donor agencies, as well as advocacy on policy change.
- A “*brokering*” function, mediating the imbalance between strong donors with a significant technical capacity and a national government that is aid dependent and has a weak technical capacity.
- *Advocacy* around international norms, such as the MDGs.
- *Capacity development* (CD) in support of budget support objectives. The UN is particularly concerned with a system-wide approach as opposed to CD within individual ministries. As well, building the capacity of local and regional administration in the context of decentralisation. The UN may also have a role in supporting the development of political governance.
- *Facilitating* civil society engagement with the policy development process, noting that civil society organisations tend to be weak.

These options had not been articulated to other development actors as a comprehensive offer. Nor was there an internal consensus within the country team in the form of an approved country plan. The Coordinator maintained that the UN Country Team is already playing some of these roles, but could do much more. He also concluded that the UN has not been good at communicating its role with other development actors. Recruiting the human resources needed to work in these areas was identified as the main challenge.

5.7 Findings, Conclusions and Recommendations

5.7.1 Improving Performance

The major challenge the UN is facing, in the views of both the donors and the Government, is that it must improve its performance. The key are the three dimensions to UN performance mentioned earlier, where the UN should produce better quality national programmes that are internally harmonised among the various agencies, and fully aligned with national policy priorities and the MDGs. Only then will they have possibilities for mobilizing additional donor resources around coherent programmes, and at the same time be able to systematically strengthen their human resources to be in line with this more programmatic and policy-oriented profile.

To achieve these objectives, the UN in Malawi faces a significant change management challenge that can not be resolved by country teams alone. The UN corporate and agency levels play a role in creating the enabling environment for change, as do the donors. Change will not occur where the structure of incentives does not permit it. This means donors strengthening predictable funding tied to policy-level interventions, to replace project-oriented funding. Funding and human resource requirements will change with emerging roles, but organisations will need a minimum level of security.

At the same time, the UN system has made real contributions particularly in a number of the sector programmes. These joint efforts with positive impact for the Malawian authorities should be better communicated, so that the value-added from the UN system is more transparent to all actors.

- 1. The UN system should review its country programmes, ensuring full implementation of the UN reform agenda in terms of joint programming to strengthen harmonization among agencies and alignment with the MDGs and national policies.*
- 2. The UN system must become better at informing the donor community about its real achievements in these same areas, since they do exist and are important.*

5.7.2 The United Nations as a Global Actor

The UN is not a donor or funding organisation, but has a global and impartial mandate conferred by all member-states. This is perhaps seen the clearest in emergency and conflict situations, where its impartiality is critical to its central role. But in the development context it also has established clear foundations in the context of Rights-based development and the MDGs. The UN has neither the mandate nor funds to be purely a donor, though some agencies work with donor and partner governments as an implementer. The UN role should instead be based on an assertive interpretation of the system's global mandate and backed up by improved performance. The organisation must focus and coordinate the resources of the entire country team, invest in qualified staff, and ensure a consensus among development partners around this.

Policy dialogue between the Government and the donor community is largely focused within the CABS mechanism. Restrictions on the UN's access to knowledge and policy dialogue centred within the CABS can only serve to reinforce poor performance. The UN should participate in these discussions with the Government, as these are appropriate to its role.

Furthermore, demanding budget support payments by the UN would be a strategic error. The UN's greatest comparative advantage is its universal and impartial mandate. In this context, making a financial contribution to budget support would align the UN with the donor community. Its relations with all development actors would be defined by the conditionality and philosophy guiding the budget support agreement between the CABS and the Government of Malawi. In the event of a rupture between the donors and the government over non-performance against budget support conditionality, the UN would also find its relation to the government disrupted. Financial contribution, therefore, might win short term influence with the donors, but that influence would come at the cost of the UN's impartiality. Further, the UN system does not have a comparative advantage with money. Contribution would position the organisation as a small donor among larger international actors. UN corporate policy development on budget support should take into consideration the consequence of financial contributions for the impartiality. The UN should therefore probably adopt a corporate policy to *not* contribute. Once policy has been determined internally, UN should negotiate a position with donors at a central level, possibly through the OECD/DAC forum. The objective would be to create a consistent global standard, as well as remove the burden from the country teams of negotiating on a case by case basis.

- 3. Responsibility for performance improvements lies with the UN Country Team itself. However, donor agencies and the UN system at large have a co-related*

responsibility to create positive enabling conditions. These include a structure of institutional and funding incentives that support transition within the Malawi country team towards the principles of UN reform and harmonisation and alignment.

4. The primary value added of the UN system rests in its mandate. Strategic positioning of the Malawi country team must be based on an assertive interpretation of this mandate, backed up by performance. The UN should not focus on niche or gap filling roles.

5. The UN system should not contribute financially to GBS since this would undermine the UN's impartial status. Rather, the UN should have observer status to GBS policy dialogue mechanisms on the basis of its mandate and an understanding of non-contribution.

5.7.3 The United Nations and Performance Monitoring

The UN system in Malawi should have a key role in monitoring the implementation of budget support modalities and advocating for change where required. The role should be developed in collaboration with other development actors, with the intention of enabling performance improvements across the development community. There is a general lack of information on the impact of “new” modalities, in Malawi and elsewhere. The knowledge gap relates not only to the development outcomes achieved and their relationship to the objectives of harmonisation and alignment, but should also assess whether budget support has served to strengthen:

- The institutions and process and of governance, including the political process between the executive, ministries, parliament and civil society that is critical in budget development.
- The actual ability of the Government to take a leadership role in defining national development priorities and coordinate donors.
- The capacity of government to deliver development services, at the central and decentralised levels, and transition or change management planning needed to ensure vital donor programmes are not lost.
- The accountability of donor and the government, to each other as well as their accountability before the national political process.
- Processes for “broad consultation” which brings civil society and the private sector into the budgeting and policy development process.

An additional knowledge gap relates to donor and government performance in the transition between modalities. While the trend is towards budget support, the major share of aid is still delivered through traditional modalities, much of which is off-budget. Donor assistance may thus be working at cross purposes, strengthening government through the budget support modality while at the same time undermining government through continued off-budget activity.

There is no information on how the donors and government are managing the transition process, and the contradictions inherent in it. The UN system could play a key role in monitoring the overall transition towards new modalities and their impact against the MDGs and the Paris Declaration targets. These are sensitive political areas that require independent and impartial assessment, in addition to ongoing donor

efforts. The UN's mandate should be well suited to this role and the policy dialogue and advocacy roles that come with it.

6. The UN system should have a key role in monitoring the implementation of budget support modalities, and advocating for change with all parties where required.

5.7.4 Budget Support and Risk Management

The UN system has a role to play in providing risk assessment and mitigation advice related to budget support. The role should include an early warning function to both government and donors as well as support to the resolution of and disputes, given the importance of maintaining predictable resource flows. Again, UN's action would be based on its impartial mandate as being neither donor nor government, but an organisation created by both.

The Study Team does not agree with the donor assessment of Malawi as a “stable” environment, or that policy dialogue can be managed through the CABS alone. The team observed significant instability related to the combination of economic vulnerability, aid dependence, poor performance on public financial management and governance and weak state institutions. The positive governance trend on which budget support payments were renewed is less than one year old. It must still be considered a political commitment of the new government rather than a structural change. This leaves open the possibility of a reversal in performance that would compel the donors to freeze budget support at some future point, as they did in 2001 and 2004.

The delay of budget support in 2001 and 2004 created severe economic hardship in Malawi and slowed down development programmes. There was a significant impact on state finances when budget support failed to arrive after the off-track declaration in 2001. As a result, domestic lending increased and the consequences still represent a difficult problem for Malawi. The donor policy has been that either all or none of the allocated budget support funds is paid to the recipient country. The *Joint Review of Malawi* (NORAD 2004) found that it is not always clear for the government whether they would receive budget support or when those payments would arrive. Furthermore, the structure of the burden is changing, with a greater share of risks falling on the government's shoulders. This is because while donors traditionally have taken co-responsibility for setting problem projects right, they no longer assume this joint responsibility, nor do they provide instruments, which can be used if and when problems arise under GBS.

Budget support modalities, therefore, have the potential to increase risk to all parties. The modality focuses resources into the central institutions of the partner government, and reduces the number of alternative delivery mechanisms in the event of problems. Donors are obliged to suspend payments if the partner government fails to respect the conditionality negotiated. Further, donors generally considered Malawi to be a high risk environment for budget support:

- The IMF concluded that fiduciary risk remains “high” and that “fiscal slippage is a significant risk to [their] program” (IMF 2004c 3).
- DFID assessed fiduciary risk as “high” and notes that the government's economic programme is “too tight to cope with any [economic] shocks, such as drought” (DFID 2004: 4).

- For its part, Norway has judged the level of risk as “acceptable”. However, the Norwegian estimate also takes into account poor performance on financial management and governance, as well as the current government’s difficult economic situation.

It is in the interest of all parties to avoid disruptions and enhance predictability. Risk assessments are conducted by individual donor agencies and shared in the CABS forum. However, based on a review of reports conducted by four donors, the team observed that the comprehensiveness of donor risk assessment and mitigation procedures is mixed. Assessments are also shaped by donor interests, which by definition can not always be those of the national development process.

The UN system in Malawi, therefore, has a potential role in risk assessment and mitigation. Focus should be on early warning of problems affecting the predictability of resource flows. The UN could contribute to the resolution of such problems, as appropriate. The objective would be to reduce the volatility and, therefore, the potential of economic shocks that occur when budget support is frozen. Independent and impartial political positioning are essential to this role, as well as retaining qualified personnel.

7. The UN system has a role in conducting risk assessment on budget support modalities, and offer policy advice on risk mitigation strategies. The role includes an early warning function, advising the Government and donors of emerging problems, supporting the resolution of those problems and thereby reducing the vulnerability of all parties in a high risk environment.

5.7.5 The United Nations and Capacity Development

UN has a role in *system-wide* capacity development (CD). Government structures tend to be weak, particularly moving out from central financial management processes to the line ministries and then regional and local institutions. Strengthening partner government capacity is essential not only to ensure that it take the leadership role in establishing and implementing development priorities, but also to meet donor conditionality. Capacity development should be occurring at three levels:

- The central financial management structures, usually located in the Ministry of Finance.
- The structures that join the central financial management to the line ministries, including the management and implementation structures of the line ministries.
- The structures that join the central financial management to the line ministries, including the management and implementation structures of the line ministries.

Political governance and political parties are also key aspects of the budgeting process, which may fall within the UN mandate. The donor community is providing a significant amount of technical support to the Government. However, donors acknowledged that the current approach tends to be driven by bilateral interests and lacks system-wide coherence. The UN, therefore, has a role in assisting development actors in arriving at a *system-wide* plan that looks not only at the capacity of individual ministries, but also at the systems and processes that join them. Building on the local knowledge acquired in its role as an implementer and the importance of decentralisation, the UN may focus on building local capacity, and linking those capacities to the central government.

8. UN has a role in system-wide capacity development of state institutions. Building on the knowledge acquired in its role as an implementer, the UN could focus on building local capacity, and linking that capacity to the central government. Capacity development on political governance and to political parties may fall within the UN's mandate.

5.7.6 The United Nations and Change Management between Aid Modalities

Donor agencies are in a better position than the UN to adapt to changes in aid modalities, particularly in the case of the bilaterals which have less complex political constituencies and smaller systems. Donors are not usually engaged in the business of implementation, and can adapt to policy shifts through their funding allocations and positioning in relation to partner governments. In contrast, many UN agencies have been established in implementing roles. They have been tasked by mandate in this role, often acting as implementers for the donor agencies themselves. This includes project and programme delivery to fill vital gaps in the State's capacity to deliver services.

Taken in this context, the movement out of service delivery into policy engagement has several implications for the UN:

- Vital services now being delivered by the UN must be transferred to the State over time. Child immunisation programmes in Malawi were cited by the UN as a case in point.
- The UN Country Team must develop a change management plan with government to oversee the transition, ensuring that vital services are not lost to beneficiaries.
- In turn, the State must have the capacity lead the transition process. The state's transition plan must also define how it will develop the capacity to manage and deliver these services.

UN agencies are under pressure to move out of direct service implementation. Donor funding for some of these activities is already being drawn down and transferred to general budget support or SWAp modalities. However, the Study Team saw no evidence that an effective change management strategy has been developed. The transition between aid modalities requires such a strategy to ensure that vital services now being implemented by the UN are not lost. In turn, the strategy must be directly linked into building the partner government's capacity to assume responsibility for delivery of those services.

9. The transition between aid modalities requires a change management strategy to ensure that vital services now being implemented by the UN are not lost.

5.7.7 The United Nations and Civil Society

The UN should play a role in strengthening the technical capacity of civil society organisations to participate in the policy and budget development process, and then facilitate that participation. An objective of the harmonisation and alignment agenda is to support broad processes of consultation, engaging civil society in the policy and budgeting process. As noted, civil society and private sector participation creates internal demand for development policy that is an essential part of the budget process. Low levels of development and weak technical capacity mean that organisations in

Malawi have little capacity to engage issues at this level. Most appear to be involved in local social service delivery in the absence of the state. Also, it appeared that political structures were not open to their participation.

Issues related to civil society were generally not raised by government or donors. While donors certainly give broad support to organisations, it does not appear linked into budget support processes. The Study Team met with only one civil society organisation, responsible for delivering approximately 40 percent of Malawi's health services. The organisation raised three issues:

- The organisation valued its collaboration with the UN, but perceived it as being too close to government.
- It was argued that the shift towards SWApS and GBS had reduced the level funding received by the organisation received from international donors. The officials could not specify a dollar amount, but rather identified it as a trend.
- The organisation agreed in principle that the state should deliver health services, and was willing to collaborate in this regard. However, it has never been approached regarding a change management plan to integrate its capacity with that of the state, or to ensure that vital services are not lost in any transition. The organisation also expressed the strongest reservation about the state's current commitment and ability to deliver health services.

The UN, therefore, could play a role in building the capacity of civil society organisations and facilitating their participation in the policy development and budgeting process. Of concern is not only the issue of participation, but change management to ensure that vital services being provided by organisations are not lost in the transition process. Engagement with civil society is already a core feature in the mandates of many UN agencies. Concept and political guidelines have been laid out by the *Report of the Eminent Persons on United Nations-Civil Society Relations* (United Nations 2004b).

10. The UN can play a role in building the capacity of civil society organisations and facilitating their participation in the policy development and budgeting process.

6 Mozambique Country Study

6.1 The Development Context in Mozambique

Mozambique is one of the poorest countries in the world, ranking as country 171 out of 177 countries on the UNDP's 2004 Human Development Index (UNDP 2004). Government estimated the absolute poverty rate at 54.1 percent in 2003, with a gross national income per capita of only USD210 (DNPO 2004). Informants attributed the high poverty level to the combination of Mozambique's colonial past, the country's war of independence with Portugal (1964- 1975), the 16 year conflict between the government and the Mozambique National Resistance (RENAMO) that ended in 1992 and weak institutions that have not been able to pursue development objectives. The HIV/AIDS pandemic is described as the greatest threat to Mozambique's future. Prevalence is increasingly dramatically, and was estimated at 21 percent in 2004 among the 15-24 female demographic (UNICEF 2004: 10).¹³

Without under-estimating challenges facing Mozambique, most informants focused on positive development trends. A key factor has been Mozambique's ability to consolidate the 1992 peace agreement between the government and RENAMO, which created the basic enabling conditions for development. Informants stressed improvement in the government's capacity to plan and deliver services. Economic growth has been strong since the late 1990, posted at 7.2 percent in 2004 (Hodges et. al. 2004: 21).¹⁴ Current poverty analysis suggests that growth is being accomplished without significantly increasing inequality. Donors and government report that "all groups have benefited from economic growth... inequality in consumption between provinces and regions have diminished" (PAP 2005a: para 13).¹⁵

The development context is characterised by a committed government and donor community. Government performance against poverty reduction targets was assessed as "satisfactory" in the 2005 Programme Aid Partnership Joint Review (PAP 2005a).¹⁶ The figure of 54.1 percent actually represents a significant decline from the 69 percent absolute poverty rate reported in 1996-1997 (PAP 2005a; DNPO 2004: 1). Government expenditures on priority sectors accounted for 63.3 percent of total expenditures, below the target of 65 percent established in the government's Poverty Reduction Strategy (PRS) but assessed by the Joint Review process as "acceptable" (PAP 2005a: para 5). Expenditures in key sectors, such as health, education and agriculture show an increase in the past five years. In turn, service improvements and poverty reduction reflect on other indicators of well-being. Notably, there has been an 18 percent decline in under-five mortality between 1997 and 2003 (UNICEF 2004: 3).

¹³ The United Nations estimates that the HIV/AIDS pandemic has reduced life expectancy in Mozambique from 41 years to 38 years (UNICEF 2004).

¹⁴ The exception to the trend was an economic contraction in 2000. Severe flooding reduced growth to 1.5 percent of GDP.

¹⁵ Notwithstanding this finding, the 2005 PAP Joint Review acknowledges that important inequalities remain. Rural areas, female-headed households and HIV/AIDS orphans are particularly vulnerable, and "have not benefited from economic growth" (PAP 2005: para. 13).

¹⁶ Donors continue to express strong concern about issues related to public finance management, corruption, procurement reform, judicial reform and missed expenditure targets in some key areas (PAP 2005: paras. 6-9).

6.1.1 International Development Assistance to Mozambique

Mozambique has a high structural dependency on international development assistance. The small national tax-base currently generates only 50 percent of the government's current budget, with aid making up the difference. The aid to GDP was estimated at a ratio of 15 percent in 2004, or about twice the average for sub-Saharan Africa (Hodges et. al 2004). The World Bank further reports that international development assistance accounted for 25.1 percent of GNI in 2003, down slightly from 28.4 percent in 1997 (World Bank 2005a).¹⁷ The importance of aid shows most clearly in the breakdown of revenues to priority sectors. For the ministries of health, education, agriculture and public works, resources providing by assistance are greater than those available from the state.¹⁸

¹⁷ The Study Team notes that the figure of 25.1 percent may be conservative, given large off-budget transfers to Mozambique.

¹⁸ In 2003, development assistance accounted for 46 percent of all spending on education, 70 percent in health and 75 percent in infrastructure (UNICEF 2004: 3). The figure would be higher if off-budget expenditures were considered.

Table 4: Direct Budget and Balance of Payment Support; Summary of Financial Contributions.

PROGRAMME AID PARTNERS	2003	2004	2005	2006*
	USD	USD	USD	USD
Belgium		3,650,000	2,400,000	4,800,000
Denmark	8,800,000	10,000,000	10,000,000	10,000,000
European Commission	71,000,000	77,700,000	54,000,000	54,000,000
Finland	3,200,000	4,800,000	4,800,000	4,000,000
France	3,200,000	3,650,000	3,600,000	3,600,000
Germany		4,200,000	4,200,000	> 4200000
Ireland	6,600,000	7,240,000	7,200,000	7,200,000
Italy		3,800,000	3,800,000	3,800,000
The Netherlands	17,000,000	14,000,000	18,000,000	18,000,000
Norway	10,500,000	9,411,000	10,979,500	10,979,500
Portugal		1,500,000	1,500,000	1,500,000
Sweden	13,600,000	13,600,000	13,600,000	13,600,000
Switzerland	5,300,000	7,407,407	7,407,407	7,407,407
United Kingdom	15,600,000	27,400,000	50,000,000	58,333,333
World Bank**		60,000,000	60,000,000	60,000,000
Total	154,800,000	248,358,407	251,486,907	257,220,240

* Indicative support

** in the form of concessional loans are considered Balance of Payments Support according to MoU

Source: PAP website.

GBS amounted to USD248 million in 2004, with donor informants forecasting increases in 2005 and 2006. Table Seven shows that from 2003 to 2004 there was a growth of funds from USD155 million to the current level of USD248 million. The increase results from World Bank USD60 million grants each year, 2004 to 2006 inclusive. Also, other donors joined the partnership 2004, including Belgium, Germany and Portugal combining with other bilateral donors increases. The largest bilateral donors for the moment are EU with USD77 million, with UK second at USD27 million. The EU has indicated it will reduce its annual disbursement to USD54

million in the coming to years, and UK will increase its disbursement to USD50 million in 2005 and then USD58 million in 2006.

Budget support accounted for only thirty-three percent of the total assistance envelope to Mozambique in 2004, with its value being approximately 20 percent of the state budget for that year. There were seventeen contributing donor agencies as of March 2005, an increase from the original 13 agencies in 2003. Donor coordination and dialogue with government is managed through the Programme Aid Partnership (PAP), known as the G-17 for the number of participating agencies. The terms of conditionality and the modalities for accountability, performance monitoring and dialogue with government are outlined in the *Memorandum of Understanding between the Government of the Republic of Mozambique and the Programme Aid Partnership for the Provision on Budget and Balance of Payments Support*, signed 5 April 2004.¹⁹ The Study Team did not encounter comprehensive information on money invested in SWAs or other similar arrangements.

The objective of the PAP is to “contribute to the reduction poverty in all its dimensions by supporting the evolution, implementation and monitoring of the [government’s PRS]” (PAP 2004). The 2004 Memorandum of Understanding includes a common performance assessment framework (PAF), based on targets established in the government’s five-year PRS and implemented through the annual economic and social planning process.²⁰ Performance against the development targets and conditionality outlined in the PAP MoU is assessed by a series of technical working groups that bring together representatives of government and donor agencies.²¹ Among other tasks, the working groups conduct a Joint Review of the performance of government and donors on an annual basis. The 2005 review included 23 such working groups focused in six thematic areas (PAP 2005: para. 1).

As general observations, the PAP appears to be a unique structure that is functioning well. The partners expressed strong satisfaction with the progress to date, regardless of any inadequacies. The results of the 2005 Joint Review appear comprehensive and of high quality. The partnership, therefore, is delivering policy-level knowledge and advice to all parties. The same working groups that conducted the 2005 Joint Review are likely to work with government in developing the new PRS for 2006- 2010, ensuing continuity in the process.

The PRS appears to be an effective tool for government planning, including setting verifiable development targets and coordinating donor action. Government has made progress in orienting resource allocations towards those targets. In turn, the budget support modality has provided an effective mechanism for donors to focus resources in support of government objectives.

Budget support to Mozambique has never been frozen as a result of government failure to satisfy established conditionality, or for any other reason. The relationship

¹⁹ Programme Aid Partnership documentation is posted at <http://www.scm.uem.mz/pap/>

²⁰ The PRSP is known in Mozambique as PARPA, for its Portuguese acronym. Annual planning documents for PARPA targets include the Economic and Social Plan (PES) and the government’s annual budget (OE), as approved by Parliament.

²¹ The 2005 Joint Review report indicates that civil society organizations played a role in the working groups. However, informants did not refer to civil society participation during the Study Team’s mission to Mozambique.

between donors and government is strong, as are the mechanisms for collaboration. Donors described a significant level of fiduciary risk related to weak public financial management, including concerns over corruption that were strongly expressed in the 2005 Joint Review process. However, the government's overall performance was assessed as "satisfactory" and improving. The Study Team did not encounter any discussion of curtailing the relationship (PAP 2005).

The UN has the following activities going on in relation to new modalities.

Table 5: UN Involvement in Budget Support and SWApS in Mozambique

UN Org	GBS - SWAp	Activity	Purpose	Regularity	Input	Funds Contributed USD
UNFPA	1.SWAp	1.Common Funding in general health CF	1.Strategic	1. Annual	Funds	1.50.000/yr
	2. SWAp	2. SWAp training	2. SWAp Advocacy and Capacity building : target group: key decision makers health sector	2. Ad hoc	2. TA + funds	2. 75.000
	3. SWAp	3. TA support (strategic and technical) for health SWAp process in specific areas, technical working groups and platforms	3. Contribute to effective Health SWAp	3. Cont's	3. Continuous	3. 100.000
	4. SWAp	4. Health systems development	4. De-verticalize support and increase effectiveness of common fund use	4. Cont's	4. TA	4. 100.000/yr
	5. SWAp	5. Dev't of Harmonization strategies of UN and Bilateral health activities conform SWAp Code of Conduct	5. Increase efficiency UN contribution to health sector development	5. Cont's	5.TA (see 3)	5. See 3.
	6. SWAp	6. Analysis of organizational adaptation of UNFPA Country Office i.e. SWAp needs	6. Increase efficiency of UNFPA support for SWAp and inform HQ's of lessons learned	6. Cont's	6. TA (see 3)	6. See 3.

UNICEF	SWAp	Participation in several fora: Health, Education, HIV/AIDS, and Water/Sanitation Sectors.	Provide TA, play "honest broker" / mitigation roles GoM-donors, ensure that children issues are high on sector agendas, influence budget allocations, leverage funds (e.g. paediatric Aids treatment, national measles campaign, malaria prevention, OVCs, teacher training)	Regular (Health SWAp: weekly, Education SWAp: bi-monthly, Water SWAp: monthly, HIV/AIDS Partners' Forum: bi-monthly)	Staff time: 1 national officer, 5 international project officers (Education -2-, Health -1-, Water -1-, Monitoring and Evaluation -1-), Senior Programme Officer, Representative	While UNICEF does not contribute to the common funds established, it provides financial assistance to Ministries against their Sector Strategic and Operational Plans
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Source: UN organisations in Mozambique.

6.1.2 Knowledge in the Transition between Modalities

In contrast to Malawi, there is considerable information available in Mozambique on GBS, including some initial findings on impact. Beyond the information being generated by the PAP collaboration, two recent independent evaluations has been done (Hodges et. al. 2004; Killick et. al 2005). Some emerging issues are the consequence of donors and government failing to live up to their commitments. Others relate to the challenges of managing a transition between aid modalities, and the contradictions that are inherent in the process. These issues are worth noting. It is precisely in the transition process that the UN system may find part of its role.

As a summary of issues encountered by the team:

- The technical capacity of the donors is greater than the capacity of the government. People from all sides indicated that the donors tend to dominate the policy dialogue. Government often does simply not have the technical capacity to respond at the level or pace being demanded by the donors.
- The government has not shown strong leadership in setting national development priorities.
- In contrast to the strong donor influence, political governance in Mozambique remains weak. Parliamentary oversight of the budget process is limited. Opposition political parties do not have the technical capacity to engage the budget debate, nor do organisations in civil society. As a consequence, the government shows greater accountability to the donor community than to the national political process.

These issues were related to what is believed to be the most important contradiction emerging from the transition between aid modalities in Mozambique; the perverse effect of large off-budget aid flows. Sixty percent of total assistance is off-budget (Hodges et. al 2004), well below the target of 85 percent on-budget established in Target 3 of the Paris Declaration (2005). Put in perspective, off-budget assistance has a value of approximately 50 percent of the total state budget. According to an independent evaluation, off-budget flows are made up of “a multitude of uncoordinated, often donor driven ... projects that do not add up to a coherent whole, which do not necessarily promote the Government of Mozambique’s priorities and of which the [government] has highly incomplete knowledge (Killick et al: para 1). These flows:

Fall outside of Parliamentary oversight though the normal budget process. Accordingly, high levels of off-budget aid flows may undermine the objectives of national leadership, accountability and strengthening political and financial management systems that are essential to the budget support modality.

Create a negative structure of incentives for government leadership and effective management. In negotiating directly with donors, line ministries undermine the authority of the Finance Ministry and avoid a political debate on priority setting with other ministries. Hodges et. al. argue that this “absolves the government of the need to exercise leadership in resource allocation” (2005: 13).²²

“Old” and “new” modalities, therefore, exist in the same aid environment and work at cross-purposes. They are the result of donors maintaining a mixed aid portfolio to reduce risk in the face of weak public financial management, or of donors not joining GBS or SWAp modalities. However, while attempting to reduce their exposure to fiduciary risk, donors effectively scale-up performance risk. A key challenge in the transition between aid modalities in Mozambique will be to extend the coverage of assistance flows that are on-budget. Three issues emerged in this regard:

- Transition will need to take into account the actual capacity of government to manage increased flows.
- The need to strengthen understanding of the impact of current “on-budget” flows.
- Developing the harmonisation mechanisms needed for donor and government coordination during the transition process, in part to mitigate the negative effects of “off budget” flows.

6.2 Findings, Conclusions and Recommendations

6.2.1 The United Nations in the New Aid Environment

Staff from the UN system in Mozambique demonstrated a strong awareness aware of challenges posed by the “new” aid modalities, and to the needs government.²³

²² Hodges et. al. continue that “the structure of incentives would change rapidly if GBS’s share of assistance rose ...” (2004: 8)

²³ Information on the United Nations’ country programme in Mozambique is posted at <http://www.unsystemmoz.org>

Understanding was not isolated in the Country Management Team (CMT), but was articulated through to the programme officer level. The 2005 Country Team annual meeting focused on positioning the UN system in relation to “new” modalities. The meeting concluded that “the UN can not operate in isolation and must be an integrated part of the development world in Mozambique...” (UNCT 2005). It reviewed:

- The implications of “new” modalities on UN programmes.
- Measures to consolidate internal reforms (Simplification and Harmonisation) as an essential step for subsequent harmonisation with government and donors.
- Aligning the UN system planning cycle with the government’s PRS process, due for completion in November 2005 (UNCT 2005).

On the latter point, the UN system proposes developing its next five year UN Development Assistance Framework (UNDAF) within the PRS process. The shift would involve significant changes in UN's country planning methodology:

Rather than developing a separate Common Country Assessment (CCA), the UN would contribute to the government’s PRS, focusing its efforts on the PAP working groups but also working through its bilateral relationship with government.

The government’s PRS would serve as the *de facto* CCA, and the basis UNDAF, which outlines the country team’s subsequent five-year plan.

The UNDAF is currently scheduled to cover the period 2007- 2011, one year out of line with the time frame of the PRS (2006-2010). The country team proposed to produce a four year plan to bring the UN's time frame into alignment with that of the government and donors.

The country team’s proposals required approval from UN's headquarters in New York, an approval that came in April 2005, and the country is proceeding. The team also noted that the UNDG’s July 2005 plan of action in response to the Paris Declaration addresses these issues. However, during the field mission some UN staff expressed concern that the corporate planning system was rigid and would not permit national innovations.

The country team has made progress in identifying areas of potential comparative advantage.²⁴ A working paper posted on the UN's country website summaries the points made by UN informants. The paper positions the UN as a “multi-sectoral organisation, and not the sum of its individual agencies, with strategic mandates. It is impartial, capable of working upstream and downstream, on emergency as well as on a long-term basis” (UN/MOZ 2005b: 2). There are five potential areas of advantage, which remain to be fully developed and integrated into operational planning as a comprehensive strategy:

- Advocacy for core UN values, concepts and principles.
- A normative role in monitoring the Government of Mozambique’s compliance with its obligations under international conventions and treaties.
- A technical and advisory role in setting standards and quality control.

²⁴ These were largely consistent with work being done within the UNDG, although no specific references were made.

- Capacity development, which the UN perceives as increasingly important in a budget support environment.
- An implementer of services on behalf of government, where a capacity exists.
- Bringing the voice of civil society into the development policy debate (UN/MOZ 2005b: 3).

The 2007-2011 UNDAF process provides an opportunity for the country team to pursue options in this regard and the UN system in Mozambique has made progress in adapting to the “new” aid environment. The posture of the organisation is generally positive, and it is trying to get ahead of change rather than simply reacting. The UN is supported in this process by the good overall enabling conditions that exist in Mozambique. In particular, there is a broad consensus between UN, donors and government on major directions. These provide a solid basis for planning in the next UNDAF cycle.

6.2.2 UN and Budget Support

UN does not make a financial contribution to general budget support. As in Malawi, officials from the organisation advised that the country team has neither the resources nor a corporate mandate to make a meaningful contribution. Donors repeatedly told that “money talks”. In their opinion, the UN should contribute financially to budget support if the organisation wants to participate in substantive discussion between the donors, and policy dialogue within the PAP. Donors said this while at the same time expressing an understanding of the financial and policy limitations placed on the country team in Mozambique. Among UN personnel it was a general frustration and defensiveness about being “cut out” of the budget support process. The sense was more pronounced moving away from management to the programme officer level.

Despite the perceptions of both donor and UN officials, no structural impediments and attitudes was observed that prevented the UN from playing a meaningful role in the PAP. On the contrary, the UN Country Team is already an active contributor. Policy development and monitoring are done largely in the PAP working groups where the UN is present and active. The only structural impediment is the organisation’s internal capacity to participate and generate policy-level contributions. The UN Country Team contribute to:

- The UN Resident Coordinator has observer status at the PAP. The presence of the Resident Coordinator does not appear to be contentious. Indeed, the partnership’s operating guidelines permit observers into any level of the process, depending on the wishes of PAP members.
- UN agencies are active in the PAP working groups. The only restriction appears to be the UN's internal capacity to coordinate its response between agencies and deliver policy-level inputs. According to one donor “everyone is welcome [to the PAP working groups]. The working groups are open to all contributions and ideas that enrich the process... but you must have something to say if you want the government and donors to listen”.
- The UN system is participating in the 2005 Joint Review of the Government of Mozambique’s PRSP implementation, as established in the PAP Memorandum of Understanding.

- People talked to anticipated that the Joint Review working groups would continue as the donor mechanism for input to the government's 2006- 2010 PRSP. The UN, therefore, can influence the PRSP process.

The UN, therefore, has every opportunity to speak through the strength of its ideas rather than with money; to earn rather than buy its way into dialogue. The fact of only having observer status at the senior level of the PAP is not an obstacle.

The UN can only earn its place in policy dialogue through performance, for which neither money nor its mandate are a substitute. As in Malawi, money is not a comparative advantage that the UN can usually bring to the table.²⁵ Not only would making a financial contribution compromise the organisation's impartiality, but it could also represent a misallocation of limited resources that should be invested in developing the country team's substantive capacity for policy engagement. The UN faces competition from the donor community in this role. Donor missions and the Breton Woods institutions in Mozambique have a high-level of technical capacity.

6.2.3 UN as a Development Partner

The UN in Mozambique was appreciated as a development partner. Both donor and government informants expressed a clear self-interest in having a strong and active UN presence. Government officials retain an historical sense of the UN that dates back to the organisation's role in helping end Mozambique's civil war.²⁶ Donor and government officials acknowledged the positive directions being taken by the country team in aligning with the "new" aid environment. However, many expressed concern that stated intentions now be shown as concrete action. Aligning the UN's planning cycle and UNDAF with the up-coming PRS were seen as a key demonstration of progress.

6.2.4 Improving Performance

There was a strong perception among particularly donors that the UN in Mozambique suffers from a low performance history, and that the organisation lacks the capacity for policy dialogue. In turn, perceptions of low performance affect the organisation's credibility. The following is a summary of the concerns raised.

Actions on the ground conflict with stated intentions. There was a strong perception that the UN continues to focus on "vertical" programming, engaging in direct implementation of projects rather than moving to the programme or policy levels. Donors believed that some of these projects were outside of government priority areas and, therefore, of questionable impact and value. Accordingly, the UN must do more to align with government's programmes and budget. Inside the UN system, frustration with workloads was present and it was said that the demand for change was placed on top of existing priorities rather than replacing them.

²⁵ SWAp programmes are an exception, as the United Nations is already contributing.

²⁶ The United Nations Operation in Mozambique (ONUMOZ) was deployed in Mozambique between 1992 and 1994. The Mission supported implementation of the peace agreement between the government and the Mozambique National Resistance (RENAMO), which is now the largest opposition political party. http://www.un.org/Depts/dpko/dpko/co_mission/onumoz.htm

The technical capacity of the UN system is largely focused on project management. The organisation has very limited substantive capacity to engage in the monitoring and the policy-level dialogue occurring in the PAP working groups. A point brought up by many donor and government informants was that the UN is often represented by Junior Professional Officers (JPO) in forums where senior personnel should be present. As a result, the UN is generally perceived as being a weak actor, the contributions of some individuals and agencies notwithstanding.

The UN is not perceived as having the right balance in the profile of its overall programme. At the same time as the organisation moves to enhance its policy capacity, donors believe that other capacities, such as emergency assistance or project delivery, should be scaled down. Action should reflect the changed situation in Mozambique and enhanced capacity of government. There was also a strong perception that some UN's agencies continue to programme for the sake of institutional reproduction after the actual need for their presence had passed. These agencies “invent” new programme areas to justify their continued presence in country. One donor informant observed “there is no structure of incentives for a UN manager to scale down programmes and close an office. Managers are rewarded when they build programmes up and keep spending money.”

There is a strong perception among donors and government that the UN lacks inter-agency coordination, despite the organisation's stated advances toward internal simplification and harmonisation. Officials described duplication, interagency competition, an inability to combine resources and a general sense of “one agency not knowing what the other is doing”. The perception of poor coordination was the most important factor affecting credibility, after performance concerns.

The UN does not, and can not play an effective donor coordination role. Given perceptions of programme weakness and the emergence of the PAP structure, donors were not willing to cede leadership in coordination to the UN, nor did they see it as appropriate. They perceived that the UN was trying to hang on to “dated models of coordination” based on a “right” inherent in the organisation's mandate, without taking into account new coordination structures. A decline in credibility related to perceptions of low performance left most donors unwilling to follow the UN lead.

Government informants expressed an appreciation of the project-level technical capacity of the UN. Officials did not generally raise concerns about the organisation programming outside of priority areas as agreed between them in annual plans. At the same time, government informants did not perceive the UN in policy-level or advocacy capacity. Nor did they refer to the UN as an impartial actors bringing balance into the relationship between government and donors, or serving a watch-dog function in relation to the Paris harmonisation and alignment standards.

Performance improvements in fact and perception are, therefore, the key to the UN playing a more dynamic role in Mozambique. There is a perceived gap between the stated intentions of the UN to align with government and donors and its actions on the ground. In part, the gap is attributed to the UN's need to put new policy directions into practice, for which the next UNDAF cycle provide a framework. Development actors will require a clear demonstration of the UN's progress in this regard. Failure to progress on key issues such as inter-agency cooperation and improving the organisation's human resource base will further erode the UN's position.

The Study Team believes that the UN could do a better job a communicating with other development actors. While a significant amount of information is being shared,

this does not seem to translate into understanding. Some humility is required. Donors expressed resentment that the UN claims its role based on “rights” inherent in the organisation’s mandate, rather than on performance or the needs of the situation. Messages, therefore, must be carefully targeted.

6.3 Areas Where the UN System in Mozambique Can Add Value

Many of the basic finding from Malawi hold true in Mozambique. First among these is whether the UN should make a financial contribution to GBS. Money should not be an issue determining the role that the UN will play in relation to “new” aid modalities in Mozambique. The UN has a global mandate, conferred by member states. The organisation receives funding and political support from its members to fulfil this mandate and has very limited sources of revenue outside of that relationship. For the UN to act like a donor:

- Undermines the organisation’s impartiality. Its relationship with government and donors would be defined by the conditionality established in the budget support agreement. The UN would become a small donor among much larger donors. It would not be able to fulfil the role that member states envisioned when they mandated the organisation.
- Positions the organisation totally outside of its areas of value added, as contributing money is clearly not one of the systems’ strengths.
- Is a misallocation of scarce resources away from the very areas that donors and government are insisting that the UN must strengthen, that being investment in the organisation’s policy dialogue capacity and the institutional changes need to support it.

Rather, all development actors should return to the basic principles of the UN’s mandate and interpret how these can be best applied in the context of Mozambique. The country team has good enabling conditions on which it can build. It has already identified areas where it can add value to the development community. The new UNDAF cycle provides an opportunity for the UN to translate statements of intention in action. There also appeared to be an emerging consensus among informants from the UN, donor agencies and government about potential roles the UN could play.

These included:

- Support to *system-wide* capacity development. As in Malawi, the UN’s strong presence on the ground may equip the organisation to play a unique role in strengthening vital local capacities and linking them to the centre, in the context of the government’s overall decentralisation strategy.
- In addition, the UN could play an important role in capacity development related to political governance, focused particularly on the budgeting process. The organisation’s impartial mandate places it in a good position for this work.
- Serving as an impartial advocate around UN’s global mandate, focusing on the Millennium Development Goals.
- Focusing on system-wide interventions that build on the UN’s multi-agency profile. The organisation is in a unique position to build on synergies between agencies and develop distinct competencies on the basis of its multi-sectoral profile. Resolving coordination problems are the key.

- Supporting Civil Society engagement in the development and implementation of policy. Action could involve capacity building in civil society organisations, as well as facilitating their participation.
- The UN can support system-wide capacity development. The organisation's strong presence on the ground may position it to play a unique role in strengthening vital local capacities and linking them to the centre.
- The UN can play an important role in capacity development related to political governance, focused particularly on the budgeting process.

6.3.1 Monitoring on Harmonisation and Alignment

As noted, the entire development community in Mozambique is adjusting to a transition between aid modalities. It is precisely in the transition process, and the contradictions it creates, that the UN system in Mozambique may find part of its role. One focus could be monitoring and an impartial assessment on the progress of all actors towards the principles of harmonisation and alignment. Knowledge generated would be used to improve overall performance, while at the same time as holding non-performers to account through transparency. Knowledge could also be transferred into the UN's global network and the OECD/DAC. Monitoring and assessment, therefore, should be perceived as an enabling function to improve performance. There would also be an advocacy role to follow-up on findings.

Assessing the extent and impact of off-budget aid flows to Mozambique is an area that needs immediate attention. The Study Team suggests a joint monitoring project, coordinated by the UN on the basis of its impartial mandate but involving donors and government, given that their active support would be critical for success. A national research centre should also be engaged. Building on existing knowledge, elements of the research could include:

- Identify overall off-budget flows and their sources.
- Develop comprehensive information on the destination of off-budget aid flows, focusing on the relationship between donors and line ministries.
- Assess the impact of off-budget aid flows in relation to the principles of harmonisation and alignment, and the government's stated development priorities.
- Make the findings fully available in the public domain. One objective should be enhanced accountability for both government and donors. As well, the project could generate internal demand for effective policy by making information available to the political process (parliamentary oversight and parties), civil society and the media.
- Build the capacity of national institutions to conduct policy research.
- Make knowledge from the Mozambique context available to the international debate on the budget support and implementation of the Rome and Paris principles.

The UN in Mozambique can play a key role in monitoring the performance of all development actors in implementing the principles of harmonisation and alignment.

The UN should coordinate a project monitoring off-budget aid flows to Mozambique, and their impact. The project should be developed in collaboration with government, donors and a national research centre, with the goal of extending the coverage of on-budget flows.

6.3.2 UN and Donor Coordination

UN informants believed the organisation should play an important role in donor coordination. The Resident Coordinator co-chairs the Development Partner's Group (DPG), in collaboration with the World Bank. The group is open to participation from all donors, regardless of whether they contribute to the PAP. While formerly the senior-level mechanism for donor harmonisation, the DPG has now ceded that role to the PAP. The group was considered by donors to be simply a forum for the exchange of information, of limited value in relation to coordination or substantive dialogue. As a consequence:

The real value of the UN system in any donor coordination role has declined, in keeping with the relative decline of the DPG and movement of coordination into the PAP where policy dialogue is focused.

There is no comprehensive technical mechanism for harmonisation that joins members of the PAP with non-contributing agencies.

There is no comprehensive framework between donors, and with the Government of Mozambique, for moving towards improved harmonisation and implementation of the Rome and Paris Declarations. Such a framework exists in the budget support MOU between the PAP. However, it applies only to PAP contributing agencies.

The Study Team believes there is a requirement in Mozambique for a broad coordination mechanism through which donors can work to improve their record on harmonisation, reduce the off-budget aid flows and improve their own accountability. The PAP has been a successful coordination mechanism, but does not bring in all agencies or delivery modalities. It is precisely in this context that the UN system may find options for adding value to donor coordination efforts.

The UN system belief that it is designated by mandate to a leadership role in relation to coordination, a view not shared by the donor community. The team suggests that the UN work with donors to consider another model in which leadership is broadly shared, with the UN playing a key contributing and supporting role. The value added would be found in leading from behind.

An independent evaluation recommended that the DPG be revived in its role as the senior-level coordinating forum. While the report questioned how effective the group was "as a force for harmonisation, there is a danger that its decline may have left non-DBS assistance in an even more condition than before" (Killick 2005: 5). The UN could place a leadership role building consensus on the role of a re-vitalised DPG.

The same report proposed development of a Mozambique Assistance Strategy, outlining the principles with which all parties are expected to comply. One element of the strategy would be a transition plan to improve donor performance and bring a greater portion of assistance on-budget (Killack 2005: 5). The United Nation could work with donors and government to design the strategy and to monitor performance.

The UN should have a role in donor coordination, ensuring that principles of harmonisation and alignment are implemented across the development community and not just among PAP members.

Annex A: Terms of Reference

UN System's Roles, Constraints and Possibilities for Contributing to Sector-wide Programs and Budget Support.

Background

Development assistance is undergoing rapid transformations, including an increased use of untied aid for General Budget Support and Sector Wide Approaches (SWAs) in a number of countries. The UN system, which has traditionally relied on project aid, is looking into what its role should be, how it can participate and contribute in these new aid modalities, and what the opportunities, constraints and advantages are of the various options.

These issues are being discussed in a number of fora where Norway is actively participating. In this regard, Norway draws on – among other documents – the 21 May 2004 report *The UN Development System Issues for Strengthening and Change* written by the “Utstein Plus” group of seven donor countries.

The UN Section of the Norwegian Ministry of Foreign Affairs would like more up-to-date empirical information on the participation of the UN system in these new aid modalities. The Ministry is particularly interested in identifying comparative advantages that the UN system might bring to these programmes, as well as obstacles to more effective UN participation. New aid modalities also contribute to increased donor co-operation and harmonisation. Likewise, the provision of budget support and SWAs are consistent with the Rome Declaration, providing development assistance in accordance with partner country priorities and focusing on harmonisation efforts in a recipient country context.

Objectives

The study will provide an empirical understanding of the UN system's current and potential role with new aid modalities. The study will focus on identifying comparative advantages that the UN system can bring to related programmes, as well as obstacles to the UN system's effective participation. In this regard, the study will assess the:

- UN system's participation in new aid modalities, including budget support, SWA programmes and other modalities as relevant;
- Perceptions of the UN system's role and performance held by key stakeholders; and
- Make recommendations to enhance performance in these two areas.

Scope

To assess the reality and perceptions of the UN system's participation in new aid modalities, the study will:

Identify new aid modalities used in the country context, including SWAs and budget support;

Review the UN system's policy on new aid modalities, at the institutional and country levels, as well as the administrative and programme frameworks through which participation is implemented;

Review the UN system's participation and performance in these modalities, as part of the overall country programme;

Assess the perceptions held by key stakeholders, including within the UN system, other donors and government, of the UN's role and performance;

Assess how these perceptions affect programme implementation;

Identify comparative advantages²⁷ that the UN can bring to participation in these modalities, and where that participation might not be appropriate; and

Identify obstacles to effective participation, as well as opportunities through which participation can be enhanced.

The study will assess the strengths, weaknesses, opportunities and threats (SWOT) of the UN-system in relation to the issues above as perceived by stakeholders; a SWOT-analysis. The basis for the SWOT-analysis may be summarised as in the table below:

Stakeholders	Strengths	Weaknesses	Opportunities	Threats
UN-system decision makers				
UN technical staff				
Donor representatives				
Government officials				
Civil society				

The study will present findings as well as recommendation on the issues above. The study should bear in mind the Rome Declaration on Harmonisation and other best practice/good practice guidelines where appropriate.

Methodology

The study should include document study, field visit to two selected countries and a set of data collection tools. The study will have three phases:

First phase will be a document study of UN documents discussing new aid modalities, document related to new aid modalities (in particular SWAp and budget support) in the countries in question, as well as other documents as found of interest. The Ministry and the Embassy will assist in obtaining adequate documents. The first phase will present an inception report at the end. The inception report will include major findings relevant to the field visit, methodological details for the rest of the study as

²⁷ *Comparative advantage*” in this context does not refer to the strict economist’s use of the term, but rather to a notion of “*who, in current circumstances, is in the best position to solve the task*”.

well as details for the field visit. The inception report should be discussed with the Ministry of Foreign Affairs.

The second phase will be a field visit to two selected countries to be identified. The relevant Embassies will set up the meetings for the field visit. The team of consultants will work in each country for one to one and half week. One local consultant to be identified from each country will undertake meetings before the international consultants arrive (estimated to two working-days), as well as join the international consultants for additional 2 or more days in the field.

The third phase will be an analysis and write up. A draft report should be delivered to the Ministry for comments at the date specified below. The report should include a discussion of the key issues, findings and recommendations.

The consultants are free to use a set of instruments as they find appropriate. A discussion and decision about tools will be in the inception report. The following instruments are required: interview guide(s) for doing the field interviews, workshop with key stakeholders in each of the selected countries. In addition to these instruments the consultants are free to use instruments like web-based questionnaire(s) and web-based discussions/discussion groups.

Timetable

The study will start in January 2005. Field work will be undertaken in February, to be completed no later than 25 February 2005. A draft report shall be delivered the Ministry no later than 5 March 2005. The final report will be delivered no later than 10 working days after the MFA submits its comments on the draft.

Team

The team should consist of one to two people with expertise in new aid modalities where budget support and SWAps are particular relevant, be familiar with the UN system, as well as having expertise on review and evaluation methodology.

In addition to the team one or more senior person should have a quality assurance responsibility.

Annex B: List of Informants

CHAM

Ms. Ruth H. Mwandira, Executive Director

CIDA

Ms. Marcia Colquhoun, CIDA

Mr. Jacques Lépine, Head of Office

Cooperacao Italiana

Mr. Dalva Nascimento, Cooperacao Italiana

DFID

Mr. Simon Vanden Broeke, Economic Advisor

Ms. Elizabeth Jones, Growth Advisor

Mr. Paul Wafer, Human Development Advisor

Ms. Christine Wallace, Education Adviser

DINA/Mader

Mr. Mario Ubisse, DINA/Mader

DNM/MMCAS

Mr. Ernesto Chamo, DNM/MMCAS

EC

Ms. Ines Alves, Teixeira EC

Mr. Chris Ingelbrecht, First Counsellor

Mr. Jerome Pons, Head of Section

Embassy of Finland

Mr. Markku Kauppinen, Ambassador

Dr. Kirsi Viisainen, Health Advisor

Embassy of Germany

Mr. Ulf-Dieter Klemm, Dr.jur Ambassador

Mr. Ronald Meyer, Head of Development Cooperation Section

Embassy of Ireland

Ms. Bridget Walker, Muiambo Gender Officer

Ms. Lidia Megre, Education Advisor

FAO

Ms. Valentina Prospero, UN Fellow. FNS & HIV/AIDS

Ms. Gaia Segola, Education Focal Point

Mr. Peter Vandor, Representative

Forum Mulher

Ms. Graca Samo, Forum Mulher

High Commission of Canada

Ms. Heather Cameron, Counsellor (Development)
Mr. Louis-Robert Daigle, High Commissioner

IMF

Mr. Thomas Baunsgaard, Resident Representative

Ministry of Education

Mr. Simeon A. Hau, Secretary for Education
Mr. Zefanias Seneta Mabie Muhate, Permanent Secretary
Dr. Joseph K. Mwale, Director of Education Planning

Ministry of Health & Population

Dr. R.M. Pendame, Principal Secretary

National AIDS Commission

Dr. Biswick Mwale, Programme Manager

National AIDS Council

Mr. Diogo Milagre, Advisor

National Directorate of Woman

Ms. Ana Lofonte, Gender Advisor

NORAD

Mr. Henrik Harboe, Senior Advisor
Ms. Kristin Sverdrup, Counsellor

PREM World Bank

Mr. Gregor Binkert, Lead Economist

Royal Norwegian Embassy

Mr. Lars Ekman, First Secretary
Mr. Gunnar Føreland, Ambassador
Ms. Tori Hoven, Country Economist
Mr. Leif B. Sauvik, Counsellor
Dr. Michael Tawanda, First Secretary

SECO

Mr. Telma Loforte, Economist

Suiss Embassy

Mr. Adrian Hadorn, Ambassador

The World Bank

Ms. Christine E. Kimes, Sr. Operating Officer

UN Mozambique

Mr. Peter Reeh, Special Assistant
Ms. Filomena Ruggiero, Gender Focal Point

UNAIDS

Ms. Ombrue Bezzo, Programme Officer

UNDP

Mr. Alberto Alface, UNDP

Ms. Onida de Barca, Education Focal Point

Mr. Augustine Bobe, Assistante Resident Representative

Ms. Lisa Dacosta, Education Focal Point

Ms. Gana Fofang, Deputy Resident Representative UNDP

Mr. Terence Jones, Head of Office

Mr. Jacob Massoanguhe, UNDP

Dr. Paula Pennanen-Rebeiro, Assistant to Resident Coordinator

Mr. Raul Vassla, UNDP

Mr. Adam Zampalgre, Deputy Resident Representative

Mr. Michael Keating, Resident Co-ordinator

UNESCO

Ms. Noel Chicuecue, Education Officer

Mr. Tirso A.S. Dos Santos, Programme Specialist in Education

Ms. Miki Fukuhara, Education Officer

Ms. Christina Raposo, HIV/AIDS Programme Officer

Mr. Bibiano Santos, Administration Officer

UNFPA

Ms. Marta Bazima, Education Focal Point

Ms. Esperance Fundira, Residence Rep

Ms. Petra Lantz, Representative

UNICEF

Ms. A. Dentice, Child Protection Officer

Ms. Aida Girma, Representative

Ms. Dezi Mahoids, HIV/AIDS focal point

Ms. Polana Muchire, Gender Focal Point

Ms. Leila Pakkala, Representative

Mr. Meritxell Relano, Project Officer Education

Ms. Christiane Rudent, Acting Head Nutrition & Health Section

Dr. Eliab Seroney, Some Project Officer

Mr. Runar Sørensen, Deputy Representative/Programme Coordinator

Ms. Deidre Watson, Education Focal Point

USAID

Mr. Joseph Van Meter, Chief of Program Development and Analysis Office

UTRESP

Dr. José Jaime Macuane, Public Administration

WFP

Ms. Claire Bader, Consultant HIV/OVC Policy

Mr. Owen Calvert, WFP

Ms. Deounda Pacho, Pr.Officer - HIV Focal Point

Ms. Nina Steensen, Education Focal Point

Ms. Anne Teigen, Education Focal Point
Ms. Angela Van Rynbach, Representative
Ms. Nadia Vaz Programme, Officer (Disaster Management)

WHO

Mr. Emmanuel Aide, HIV Medical Officer
Mr. Kidist Bartolomeus, Injury & violence Programme Officer
Ms. Gloria Chongissa, Education Focal Pont
Ms. Eva De Carvalho, WHO
Mr. Steven Dils, Programme officer
Ms. Eva Le Canvalind, Medical Officer
Dr. Abdou Moha, 3x5 Team Leader
Dr. Chris Ngenda Mwikisa, Officer-in-Charge
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