This action is funded by the European Union

ANNEX 1

of the Commission Decision on the Annual Action Programme 2015 in favour of the Republic of Mozambique to be financed from the 11th European Development Fund

Action Document for "Good Governance and Development Contract for the Republic of Mozambique"

1. Title/basic act/ CRIS number	Good Governance and Development Contract for the Republic of Mozambique CRIS number: 38077 financed under the 11th European Development Fund (EDF)
2. Zone benefiting from the action/location	Mozambique The action shall be carried out at the following location: Mozambique at national level
3. Programming document	National Indicative Programme (NIP) for Mozambique 2014-2020
4. Sector of concentration/ thematic area	Good Governance and Development
5. Amounts concerned	Total estimated cost: EUR 200 000 000 Total amount of EDF contribution: EUR 200 000 000, of which EUR 200 000 000 for budget support and EUR 0 for complementary support
6. Aid modality(ies) and implementation modality(ies)	Budget Support Direct Management - Budget Support: Good Governance and Development Contract (GGDC)
7. DAC code(s)	GGDC: 51010 - General budget support

8. Markers (from CRIS DAC form)	**General policy objective**	**Not targeted**	**Significant objective**	**Main objective**
	Participation development/good governance	□	□	X
	Aid to environment	X	□	□
	Gender equality (including Women In Development)	X	□	□
	Trade Development	X	□	□
	Reproductive, Maternal, New born and child health	X		□

	RIO Convention markers	Not targeted	Significant objective	Main objective
	Biological diversity	X	◻	◻
	Combat desertification	X	◻	◻
	Climate change mitigation	X	◻	◻
	Climate change adaptation	X	◻	◻

9. Global Public Goods and Challenges (GPGC) thematic flagships	The GGDC is expected to indirectly contribute to the following 3 GPGC thematic Flagships: Flagship 6. Resource Transparency Initiative Flagship 10. Domestic Revenue Mobilisation Initiative for Inclusive Growth and Development Flagship 11. Rights-based development for the working poor
10. SDGs	1- End poverty in all its forms everywhere 3- Ensure healthy lives and promote well-being for all at all ages 4- Ensure inclusive and equitable quality education and promote lifelong learning opportunities for all 5- Achieve gender equality and empower all women and girls 8- Promote sustained, inclusive and sustainable economic growth, full and productive employment and decent work for all 10- Reduce inequality within and among countries 16- Promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels 17- Strengthen the means of implementation and revitalize the global partnership for sustainable development

SUMMARY

Mozambique has a long-standing experience with General Budget Support (GBS) programmes since the early years 2000. This mechanism has been instrumental in setting up a comprehensive dialogue structure with the Government and the latest Budget Support Evaluation (covering 2005-2012) shows that GBS has been fundamentally successful in Mozambique, with positive contributions to critical priority sectors (e.g. Education) or reform processes (Public Financial Management (PFM) reforms, submission of anti-corruption legislation).

Against the backdrop of a disappointing pace in reducing poverty (54.7% in 2009, latest available household survey), and with the expectation of large revenue inflows from extractive industries in the future (notably gas), a Good Governance and Development Contract (GGDC) operation provides an opportunity (perhaps the last window of opportunity) to focus dialogue on critical issues for the sustainable and inclusive development of Mozambique. Through policy dialogue, the European Union (EU) can engage with the authorities on addressing the challenge of preparing well for managing these resources, further strengthening PFM systems, service delivery and public investment management, all geared towards the inclusive growth agenda, as well as improve transparency and governance at large, so as to fully benefit from this potential blessing. The need for a more strategic and focused GBS policy dialogue has long been recognised by all partners locally, and priority areas for a more focused dialogue have been agreed, in line with the themes above.

The National Indicative Programme (NIP) allocates around half of resources to Good Governance and Development (Sector 1), of which the GGDC would take the lion's share. As a first programme, a 4 year operation of EUR 200 million is envisaged, with a variable component linked to triggers related to PFM, governance and effective service delivery.

The GGDC was discussed in several meetings with the National Authorising Officer (NAO) and the Ministry of Economy and Finance in June/July 2015. The programme has also been informed by past consultations with civil society, e.g. in the context of the NIP, studies undertaken on dialogue and citizenship (under the Non State Actors Support programme), the Civil Society Roadmap, and sessions on human rights priorities.

1 CONTEXT

1.1 Country context

Over the past decade Mozambique, a Low-Income Country with a Gross Domestic Product (GDP) per capita estimated at USD 630 for 2014, has achieved impressive economic growth, with annual growth rates around 8%, and it has remained relatively resilient to the global economic crisis. Initially driven by the post-conflict (1975-1992) reconstruction effort, including economic and social infrastructure, growth has been increasingly determined by large-scale foreign investments in mega-projects and extractive industries, typically capital-intensive and export-oriented (enclave) sectors.

Growth, however, has not yet been accompanied by economic diversification or significant employment creation, and it has not been as pro-poor as in other high-growth countries. The impact of high growth on income generation for the majority of the population has not been visible and living standards remain extremely low, especially among the large number of small-scale farmers trapped in low productivity (most of which are women). While the country recorded a major drop in poverty in terms of per capita consumption from 1997 to 2003 (from 69% of people below the poverty line to 54%), official data suggest that poverty reduction has slowed down since and rates remained virtually unchanged from 2003 to 2009 (from 54.1% to 54.7%). One explanation is that the first period after the end of the conflict saw the return of the labour force back to work, mainly in agriculture, a labour-intensive sector, while the second period was characterised by more capital-intensive growth spurred by mega-projects (aluminium, coal, gas), with spill-overs mainly in the service sector. The Gini coefficient was estimated at 45.6 in 2008, with the highest quintile holding more than 50% of the national income. A new household survey with an improved methodology is expected in early 2016.

While Mozambique is among the last countries on the Human Development Index (178 out of 187 countries in 2013), it has achieved fast progress since 2000, with consistent increase in access to basic services in health and education. Attention is now increasingly shifting to quality and reducing the gender gap. Expansion of basic services has been unequal across the country and key indicators of socio-economic development suggest both qualitative and regional/gender disparities. It is also clear that women, children, the elderly and persons with disabilities remain the most vulnerable. Households' vulnerability to various risks, including seasonal flooding, price increases of food and fuel, incidence of malaria and HIV/AIDS remains extremely high. Nutrition indicators are among the worst in Africa, with 44% of children stunted.

Donor dependency is reducing, but remains high, with 25% of the 2015 budget to be financed by external aid (grants and loans), down from 44% in 2010. Thanks to revenue enhancing reforms, domestic revenues fully cover recurrent expenditure since 2011, providing a primary balance and a sort of ‘primary fiscal autonomy’, which is a positive development.

Mozambique has received GBS for the past 15 years, up to 19 donors in 2009 (currently 14 donors). Over the years, this has spurred an intense dialogue around public expenditure, priority spending towards poverty-reducing sectors, and the necessary improvements in the PFM systems for achieving efficient and effective resource allocation. The 2014 Joint Budget Support evaluation financed by the EU using the OECD-DAC (Organisation for Economic Co-operation and Development - Development Assistance Committee) methodology shows that GBS in Mozambique has been fundamentally successful (see section 3.1).

1.1.1 Public Policy Assessment and EU Policy Framework

The strategic planning framework consists of a package of documents, complementing each other in terms of objectives/time horizons. They include: the revised 'Agenda 2025', which takes into account the rapidly changing development context of Mozambique (e.g. extractives); the National Development Strategy *2015-2035 (Estrategia Nacional de Desenvolvimento – ENDE)* adopted by the Council of Ministers (CoM) in July 2014, a sort of implementation strategy for the Agenda 2025, with a more explicit and relevant objective of economic transformation and diversification of the production base (even though more emphasis could have been put on the transformation of the agricultural subsistence sector, where currently 70% of the population is active); and the Poverty Reduction Strategy Paper called "PARP" (*Plano de Acção para a Redução da Pobreza*) covering 2011 to 2015 (only approved by the Council of Ministers).

The PARP includes very relevant objectives related to agriculture productivity, employment promotion and fostering human and social development, all of it supported by good governance and macroeconomic stability (and sound PFM). So far the PARP has been the most prominent document in the regular policy dialogue with the Government as it addresses more explicitly the objective of poverty reduction, hence being in line with Cotonou and the Agenda for Change. The track record on PARP implementation has been in general positive, with around 69% of the targets set as being achieved (44% fully, 50% partially)[1], and with the human development objective showing the best performance. On this account, the PARP can be considered a relevant and credible national strategy.

Going forward, the PARP as a (de facto) 'donor' instrument will be discontinued, and Government will solely operate on the basis of the Five-Year Government Plan (*Plano Quinquenal do Governo*, (PQG)), a document that is foreseen by the Constitution; the PQG is then implemented year after year through the Social and Economic Plans and the State Budgets. Following general elections in October 2014, the new Government submitted to Parliament a new PQG covering 2015-2019, which was approved in April 2015. While poverty reduction is not explicit, the PQG prefers to take a more 'positive' approach and identifies as overall objective the *improvement of living conditions* of Mozambicans, increasing jobs, productivity, competitiveness and creating wealth and inclusive development, in a context of peace and security. It is therefore clear that inclusiveness of growth is a key concern of the Government and that it directs the Government's strategy. Moreover, all the identified strategic priorities will contribute to the inclusiveness of growth; these are (similar to the PARP): i) human/social development (including equity and quality of services); ii) promotion of employment, productivity, competitiveness (notably in agriculture); iii) developing social and economic infrastructure; iv) ensuring a sustainable management of natural resources and the environment. Supporting pillars include good governance/rule of law/social justice, and a sustainable macro-economic environment. On this basis, the PQG can be assessed as a broadly **relevant plan**.

On the monitoring side, the PQG includes more systematic indicators for the various priority areas identified, with targets to 2019, which enhances **credibility** and ownership of the policy document. The PQG is also accompanied by a more detailed Strategic Matrix with annual indicators and targets. Many of the NIP indicators identified for the GGDC are consistent with those of the PQG, making the programme in line and supportive of the national plan.

Performance Assessment Framework (PAF): so far, the PARP monitoring framework was the main basis for the past GBS operations, which was translated into a more streamlined three-year rolling PAF used by all GBS partners. Over the last three years efforts have been made to enhance the quality of PAF indicators and their relevance to GBS operations. The PAF currently includes 33 indicators, assessed at the Budget Support Annual Review between March and May. A process for a deeper PAF reform beyond 2015 has been initiated with the Government of Mozambique, and there is already agreement on focusing on more strategic indicators, linked to key priority areas for dialogue (effective government systems, promoting inclusive economic growth, promoting governance and domestic accountability, effective service delivery). A full PAF is expected to be finalised in September 2015.

Against this background, a credible and relevant national policy is in place which supports the objectives of poverty alleviation, sustainable and inclusive growth, and consolidation of democracy.

1.1.2 Stakeholder analysis

In terms of main beneficiaries and target groups, as the GGDC would support the implementation of national strategies and service delivery through the national budget, clearly the final beneficiaries are the Mozambican people, most of which are vulnerable women and children. Policy dialogue around inclusive growth would benefit the private sector at large, especially small-scale enterprises and small-scale farmers (mostly run by women).

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[1] PRSP Progress Report – IMF Country report No. 14/147, May 2014.

As for the specific target groups of a GGDC, these are in general the 'reformers' in key Ministries such as Economy and Finance, Public Service/Decentralization, Education, or the Minister of Mineral Resources and Energy (former Vice-Minister of Finance), who would benefit from support, through the GBS dialogue, in carrying out critical reforms and addressing the risks highlighted in the 2012 country political economy analysis commissioned by the EU Delegation. Back then, the risks that Mozambique would turn its resource finds into a curse rather than a blessing had been rated relatively high. This was related to opportunities for rent seeking by members of the ruling élite, especially around extractive industry contracts, while maintaining the bulk of the small farmers in poverty and co-opting the emerging private sector. Since then, thanks to generational changes within the ruling party, coupled with the wake-up call from the local elections in 2013 and the general elections in 2014 (where Frelimo majority was maintained, but with a lower margin), it appears that internal pressures have been mounting, demanding more transparency and a better sharing of the wealth. These internal pressures could explain some of the more technocratic/promising ministerial nominations in the new government of President Nyusi, as well as his recent election to party leader, replacing previous President Guebuza. A GGDC operation would allow a focused Budget Support dialogue on issues of transparency and anti-corruption, quality of expenditure and revenue management, as well as intensified dialogue on budget allocations for promoting inclusive and sustainable growth and quality service delivery, with particular focus on gender, hence supporting those in Government who share these objectives.

The dialogue to be pursued through the GGDC/joint GBS group will also allow for engagement with other important target groups, such as the Parliament (notably the budget committee), the Supreme Audit Institution (SAI) and civil society, hence reinforcing domestic accountability mechanisms towards citizens, and in turn strengthening future sustainability of the GGDC programme. As regards the Parliament, the 2014 general elections brought a more diverse landscape for the next five years, with the opposition's weight increasing to above 42% (from 33% in the previous legislature). This is expected to grant a more genuine debate on budgetary priorities and budget implementation and shift the parliament away from a mere 'rubber-stamping' institution. Similarly, the GBS dialogue incorporates a discussion on the SAI findings and Government response to address the weaknesses identified, so that value for money and effective budget allocations can be attained, for the benefit of the population.

On Civil Society Organisations (CSOs), specific fora have been created at central, provincial and district level, to engage in a high level debate on Governments plans and their implementation, enabling a process of strengthening domestic accountability vis-à-vis citizens. As shown by the recent CSO Mapping carried out by the Delegation, over the last five years the level of participation and influence of CSOs, in particular in the elaboration and oversight of the state budget, has increased. This is a result of a strategic partnership established between the Budget Monitoring Forum (FMO) and the Parliament and, a better coordination among the various CSOs for more effective engagement in the national public agenda. This partnership will be nurtured by the GGDC/joint GBS group by interacting with FMO and supporting their capacity to engage in these technical discussions.

1.1.3 Priority areas for support/problem analysis

As already mentioned in the country context section, in spite of high rates of economic growth in past years, coupled with prudent macro-economic management, Mozambique has not yet witnessed significant impacts on income generation at large and living standards remain extremely low, especially for small-scale farmers, the majority of which are women. Poverty rates are somehow stagnant at nearly 55% (2009), levels of chronic malnutrition among children is high, and women suffer from limited access to skills, opportunities and resources needed to access education (especially higher education) and employment. Maternal mortality rates remain high and HIV/AIDS incidence is higher among girls aged 15-24. There is still little evidence of structural transformation in the economy, most of the investment is foreign and related to capital-intensive extractive industries that generate few jobs. Institutional capacity remains weak, coupled with challenges in ensuring rule of law and the fight against corruption. In terms of institutional setting, the merge of the Ministry of Planning and Development and the Ministry of Finance into the Ministry of Economy and Finance (MEF) can be seen as a positive development for improved policy coherence between planning and budgeting, and potentially also for coordination with the line Ministries on critical reforms. MEF is endowed with a relatively high level of capacity and skills; what is needed is a strong leadership from the top for this key Ministry to operate and guide Line Ministries. Whenever capacity is assessed as insufficient, the Government of Mozambique can count on a plethora of potential support in various areas, including PFM reforms or the highly technical extractive industry's/gas negotiations.

Expectations on potential future revenues from gas (but in a substantial manner not before 2023) provide incentives for increasing public spending, while its quality (notably of the investment component) is not always assured and needs close monitoring. Due to commodity price fluctuations, revenue collection volatility can be expected in the coming years, which can lead to significant fiscal gaps, hence external donor support will continue to be important, despite its reduced weight in public spending. Going forward, Mozambique's challenge is to prepare its institutions and human capacity for managing the expected revenue inflows from extractive industries, further strengthening PFM systems and public investment management, addressing growth in the non-resource part of economy and fostering transparency and participation, so as to fully and equitably benefit from this potential blessing. In this context, a Budget Support operation can provide the right incentives for these reforms, provided policy dialogue around it can remain focused and strategic.

Mozambique has been a significant recipient of Budget Support over the last 15 years, and this mechanism has been instrumental for setting up a comprehensive dialogue structure with the Government. However, over time, the system has grown in complexity and lost efficiency, and the initial focus on GBS has been eroded due to the fact that less and less agencies provided GBS (linked to own domestic resistance), while at the same time the number of agencies 'at the table' was maintained. This loss of focus was also reflected in the quality of policy dialogue with the Government of Mozambique, which somehow deteriorated, in the backdrop of less openness for debate and a certain wish for 'emancipation', as donor dependence reduced and access to other financing sources increased. This is notwithstanding the positive contribution that GBS has provided to critical priority sectors (e.g. Education) or reform processes (PFM reforms, submission of anti-corruption legislation), as highlighted in the 2014 Independent Evaluation on Budget Support (see section 3.1). The Evaluation also recognises the need for streamlining processes and having a more focused policy dialogue.

The positive fact is that there is now a broad consensus that this situation needs to change, and discussions are ongoing to revise the Budget Support coordination arrangements. A Memorandum of Understanding for the provision of Budget Support was signed in that perspective on 21st September 2015. The first step was to build consensus among agencies on the main objectives of GBS (overall and specific) and from there identify the key priority areas for the coming years. The idea is to shift away from an aggregating approach where each sector would be asked to 'claim' a space in the GBS dialogue, but rather identify upfront the critical and more strategic issues for the GBS policy dialogue. This process led to a relatively strong consensus (including with the Government of Mozambique) that GBS should remain focused on *systemic* issues that benefit from a GBS dialogue and that can trickle-down through all sectors, once implemented, as well as on issues that benefit from multi-sector approaches and are heavily dependent on the State budget (since this is what GBS funds). On this basis, the following priority areas for dialogue (and hence also performance measurement) have been retained: i) Effective government systems, notably PFM, fiscal risks, natural resource revenues; ii) Promoting inclusive economic growth, especially for small-scale enterprises and transforming agriculture; iii) Promoting governance, rule of law and domestic accountability, focusing on anti-corruption, external audit, transparency; iv) Effective service delivery, related to social sector concrete outcomes, but also the much-needed public service reform. Cross-cutting themes (incl. gender) should be mainstreamed in these areas.

These four areas provide the backdrop for a strengthened GBS dialogue around key issues, and provide an opportunity for GBS to remain relevant in the coming years, addressing critical factors for an inclusive and sustainable development, in spite of the anticipated reduction of GBS flows, both in absolute and relative terms.

1.2 Other areas of assessment

1.2.1 Fundamental values

The Fundamental Values Assessment (FVA) was positively assessed at the Budget Support Steering Committee of 3/3/2015, where it was confirmed that the pre-condition for a GGDC is met.

The FVA highlights that Mozambique made consistent progress over time in adopting international conventions and translating them into national legislation. The 2004 Constitution guarantees protection of basic principles related to pluralism of expression, freedom of information and freedom of association. It also explicitly recognizes the separation of powers, the right of access to justice and the rights to effective judicial protection and equality before the courts. On democracy, since the end of the war in 1992, Mozambique conducted five presidential and parliamentary elections, three local elections and two provincial elections, often under the scrutiny of national, regional and international observers (e.g. six EU Electoral Observation Missions).

The main challenges highlighted in the FVA are related to political inclusiveness and lack of political space for the opposition, influenced by a pattern of a dominant party (Frelimo) State, based on national liberation movements from the 1960s/70s, that is common to many Southern African countries. The lack of distinction between party and State also has an impact on independence of the judiciary. On human rights, the slow implementation of the broadly good legislative framework is the main issue, with shortcomings often related to lack of resources/capacity, political will for sensitive reforms, poor standards of detention places, excessive use of force by law enforcement agencies, corruption and impunity.

The FVA recommends close monitoring of the consolidation of the rule of law (including improved effectiveness of law enforcement) and good governance (including on high levels of corruption), and using the budget support dialogue and the political dialogue to address issues on inclusive development and overall political risks, respectively. In operational terms, the FVA highlights the following: a) need for a realistic results-oriented framework focused on strategic areas where a GBS operation would have value added and leverage, b) Concrete progress on critical PFM areas and c) Strengthened public investment planning and prioritisation.

1.2.2 Macroeconomic policy

Mozambique’s macro-economic performance remains robust; prudent monetary and fiscal policies over the years maintained macroeconomic stability until 2014, with annual growth rates of above 7% (2010-2014), and inflation contained below 5% (2012-2014). Growth has been driven by agriculture, commerce and trade, transport and communications, and financial services. Large-scale foreign investments in mega-projects and extractive industries have only become a source of growth in the last three years. While linkages can and should be developed with these sectors, they are typically capital-intensive and export-oriented (enclave) sectors, so will not provide large employment opportunities for the majority of the working population. Women and girls in Mozambique are particularly locked out of economic opportunities and there is an increasing feminisation of poverty. In addition, some of the dynamics of the extractive industries will need to be mitigated to avoid creating constraints to growth in the wider economy. Strong growth is expected to continue in the medium term, led by the extractive industries and related sectors such as transport, communications and construction.

Potential sources of instability are related to the piling up of unsustainable debt and developments in the gas sector production. On debt, while infrastructure gap certainly exists, it is also clear that the quality of public investment spending is critical, at a time when Mozambique is increasingly able to access capital on the international markets (as also shown by loans contracted for infrastructure projects). So far, the authorities have respected the ceilings for non-concessional borrowing agreed under the Policy Support Instrument of the International monetary Fund (IMF), and the latest Debt Sustainability Analysis carried out by the IMF/World Bank (June 2015) confirms that Mozambique remains at moderate risk of external public debt distress (nominal debt/GDP ratio at 49% in 2014 and projected at 51% for 2015). Reforms are on-going to strengthen Public Investment Management (PIM), with more transparent and objective project selection, tendering, implementation and monitoring, closely supported by the World Bank (WB). Similarly, the quality of recurrent spending needs close monitoring, notably in relation to the wage bill and its composition, towards an efficient and effective service delivery.

On the gas sector, so far the impact of large-scale investments has been visible on the balance of payments, with current account deficits reaching very high levels (around 40% of GDP in the past three years), related to extractive industries imports. This, however, is matched by equivalent Foreign Direct Investment inflows on the capital account, and foreign reserves levels remain adequate (around four months of projected non-megaprojects imports). Gas production and export are not expected to start before 2019-2020, and a noticeable impact on revenues not before 2023. Any delay in the Final Investment Decision by the main gas exploring companies, which still needs to be taken, will also impact on future growth prospects.

Revenue mobilization has been a success story in Mozambique: since 2005 revenues have risen by more than 6.5% of GDP, with tax revenue over GDP reaching 27% in 2014, mainly thanks to a concerted tax Administration effort. Domestic taxes now cover recurrent expenditures, hence pointing to a sort of ‘primary fiscal autonomy’, which is positive. The IMF is now advising to reduce this ambitious annual tax growth target, in order to avoid negative effects on the emerging local private sector (Laffer curve effects). Going forward, gradual increases are expected from natural resources (gas and coal production), even though not before the mid 2020s, and provided the more recent uncertainties linked to global oil/gas prices dissipate.

Vulnerability to external shocks: the country is subject to imported inflation, given its dependence on imported goods, and this needs to be managed. It is also vulnerable to export fluctuations, linked to the international price of aluminium, coal and other mining products. Mozambique was eligible for FLEX (instrument to compensate fluctuations in export earnings) funds three times (application years 2008, 2009 and 2010). Moreover, if not well managed, the increasing importance of extractives could result in currency appreciation and revenue volatility, though this effect may only come in the medium to long-term, when gas exports start. So far the Central Bank reserves seem adequate and market interventions are made accordingly. Mozambique is also prone to adverse climatic conditions, with recurrent floods affecting the country; the introduction of an early warning system and improved disaster preparedness is positive, but more structural solutions may need to be devised.

Relations with the IMF. Mozambique has had a Policy Support Instrument (PSI) Arrangement with the IMF since 2007, and is currently implementing its third PSI (2013-2016) monitored through semi-annual review missions, well-coordinated locally. The IMF Fourth Review of June 2015 confirms the PSI is on-track, though staff alerted that the main short-term challenge is to preserve fiscal/debt sustainability and rebuild reserves against balance of payments shocks. On the back of an expansionary fiscal stance in 2014, fiscal consolidation has been initiated in the 2015 budget so as to restore prudent fiscal management, notably by containing current spending and bringing investment to a more sustainable level. Structural reforms focusing on PFM, monetary policy tools, banking supervision, and business facilitation are mentioned as priorities to sustain growth and render it more inclusive. The on-going reforms on PIM are encouraged. The on-going fifth review confirms the need for fiscal consolidation for the 2016 budget proposal and recommends some monetary policy measures. A new programme, a Standby Credit Facility (SCF) has been requested by the authorities to complement the PSI to allow recovering from the depletion of the reserves.

As a conclusion and on the basis of the last years PSI assessments, there is a credible, stability-oriented macroeconomic policy.

1.2.3 Public Financial Management (PFM)

Based on the outcomes of (i) the three Public Expenditure and Financial Accountability (PEFA) assessments conducted between 2006 and 2011 clearly documenting improved PEFA scores, (ii) the yearly IMF Fiscal Affairs Department (FAD) mission reports, (iii) the recently published IMF Fiscal Transparency Evaluation (FTE), and (iv) the 2014 WB Public Expenditure Report (PER), Mozambique's on-going efforts and reforms to improve PFM can be considered as relevant and credible.

The PFM vision 2025 (adopted in 2012) provides the strategic orientation of the PFM reform processes. It is a comprehensive document incorporating all aspects of the PFM reform and contains a higher level operational matrix.

The major **strengths** of the reform programme have been in upstream functions including: (i) comprehensiveness, credibility and transparency of budget management; (ii) cash management (Single Treasury Account (STA)); (iii) revenue collection and management; and (v) coverage and improvements of the Integrated Financial Management Information System (IFMIS - called e-SISTAFE). Over the last four years, important progress has been made on IFMIS coverage starting from 37,5% of expenditures being executed directly (end-2010) to 68% end 2014 (higher than targeted for 2014), marking the completion of the first phase of the IFMIS[2] roll-out.

Mozambique has continuously improved the PFM-related legal framework of internal and external audit, public enterprises, Public Private Partnerships (PPPs), extractive industries and their fiscal regime, customs system and anti-corruption. Measures were taken to strengthen controls on payroll management and enhance tax reforms (e.g. net value-added tax is applied as of the 2015 budget and large tax-payers units have been

[2] In general, all Budget Units that comply with the initially established criteria for access to the IFMIS have been equipped by end 2014. The remaining Budget Units do not comply with minimum criteria such as access to energy, minimum number of budget allocation and staff. Potentially a revision of these criteria will be done in 2015 to inform and decide on the next phase of expansion.

established). Improvements have been noted in the institutional set-up for PFM in relation to PIM. A Public Investment Committee was established in 2012, an appraisal manual was adopted in 2013 and a first Public Investment Plan (PIP) was published in 2014. There is scope for improving the quality of the PIP, and full implementation of the tools adopted is still to be attained. However, these elements provide the basis for a learning process.

Finally, the work of the Supreme Audit Institution (SAI) has registered progress and the quality and coverage of the external audits are evaluated rather positively by PEFA and the IMF. However, systematic follow-up of the SAI recommendations can be improved and the time lag between the release of the audits and their judgment should be shortened to ensure increased effectiveness.

The main weaknesses can be summarised as follows:

i) A certain fragmentation in the reform agenda, largely dominated by IT (Information Technologies) development processes. Mozambique seems to have initiated an ambitious number of reforms simultaneously, some of which have been implemented without sufficient consolidation. For instance the STA was operationalised in 2005, but still an important part of funds is channelled outside the STA and the MEF is struggling to have full oversight of all bank accounts. Similarly, sectors seem to have limited capacity or show resistance to implement the different reforms agreed at central level. It is only in 2014 that the Government of Mozambique realised that a change management strategy should be adopted to accompany implementation of the PFM reform agenda (this is now under elaboration with EU support). This has called for improved sequencing and a reinforced overall coordination and steering of the PFM reform agenda. The 2015 PEFA (led by the EU) is expected to provide further insights.

ii) Weak compliance with the public procurement law, based on the principles of transparency, integrity and competitive procedures. In 2014, a newly available report drawn from IFMIS revealed that over 50% of procurement value for investment and goods & services was contracted using the direct award procedure. This is somehow an over-estimation, as it also includes negotiated procedure, which is a competitive procedure according to EU standards. The main explanatory factors are: existence of few (monopolistic) suppliers, limited capacity within Government (knowledge of rules and lack of guidance) and poor procurement planning. This modality is also very much prone to political influence and corruption.

iii) Limited coverage and analysis of fiscal reports (highlighted by the IMF FTE), mainly due to the lack of a complete and reliable inventory of public sector entities. Legislation on the definition of Public Sector is not consistent with international standards and needs revision. Capacity constraints were detected relating to the State institute that oversees public enterprises and publicly-owned corporations as it exerts limited oversight on the financial assets and risks associated with these entities. Consequently, apart from risks to external financing, no fiscal risk is recognized or analysed in budget documents and there is no strategy for managing them. The FTE report includes an action plan with proposed steps towards improved disclosure and management of potential fiscal risks which can be used for focused policy dialogue.

The Government, also as a response to the concerns raised by civil society and Parliament, recently deposited to the Council of Ministers a draft law on State participation in private companies, evidencing their commitment to this new reform agenda. Once adopted, the law is expected to provide guidance on the definition/scope of the public sector in Mozambique and to set a narrow reporting and oversight framework.

iv) Internal control weaknesses have been highlighted in different audits/assessments. The internal control function, even though showing improvements over the years, is not yet sufficiently effective to ensure that payroll management, asset management, procurement laws, PIM rules and debt management are applied according to the continuously improving legal framework.

1.2.4 Transparency and oversight of the budget

The entry point on Budget Transparency is assessed as met. The six key budgetary documents stated in the EU Budget Support guidelines[3] are disclosed in a timely manner (within release benchmarks) and are publicly available (posted on website). This performance is reflected in the 2012 Open Budget Index (OBI), having improved its score from 28 in 2010 to 47. This, however, could not be consolidated in the OBI 2015 (declining from 47 to 38), partially due to a change in the OBI methodology, putting more emphasis on

[3] Executive's budget proposal, Enacted Budget, In year, Mid-Year and Year-End Report and the Audit Report

public participation and oversight functions. As regards the transparency and comprehensiveness of the 6 key documents, minor improvements are noted in 2014 which are not taken into account in the OBI calculation.

Over the past 3 years, draft Budgets were made available to the public immediately after submission to Parliament and the Enacted Budget within one month after approval, and accompanied by Citizen's Budgets. Quarterly execution reports are released within two months after the reporting period. The state accounts are released six months after closure of the fiscal year, but were previously published only after approval by Parliament, approximately 16 months after the end of the fiscal year. In 2014 progress was achieved, partially thanks to the budget support dialogue process (PAF indicator), as the 2013 State accounts were published seven months after the end of the fiscal year (July 2014). The Audit Report is submitted to Parliament within 11 months after the reporting period; however the report is only made public after Parliament's approval, approximately 16 months after closure of the fiscal year, still well within budget support guidelines benchmark (2 years).

2 RISKS AND ASSUMPTIONS

The Risk Management Framework was updated on 03/12/2014 and again on 9/02/2015 and presented at the Budget Support Steering Committee on 12/02/2015, where it was endorsed.

A budget support operation in Mozambique is exposed to an overall moderate risk, with higher risks levels in the areas of corruption/fraud and developmental risk. Increased opportunities for rent seeking, especially around extractive industry contracts and particularly by a limited number of members of the ruling élite, explain the developmental risk, with Mozambique risking a resource curse rather than a resource blessing. Risks of political instability should also be closely followed-up.

As the window of opportunity of donors' leverage is slowly closing (in view of future large revenue flows from natural resources), the cost of non-intervention can be significant, with the EU losing influence to promote change (among some of the reformers) and minimise risks. The new approach to budget support introduced in the Agenda for Change is particularly suited to the Mozambican context, provided the Government commits to a strengthened framework for the prevention and control of corruption and provided the EU (in conjunction with its Member States) takes full advantage of its leverage through policy and political dialogue (an important mitigating measure), in addition to a strategic allocation of its development funds, and complemented by significant trade and investment potential, especially from EU companies.

The GBS dialogue is also expected to be refocused around issues of transparency and anti-corruption, expenditure and revenue management, as well as intensified dialogue on budget allocations for promoting inclusive, equitable and sustainable growth and quality service delivery. The new Government that took office in January 2015 seems to acknowledge the importance of these critical issues.

3 LESSONS LEARNT, COMPLEMENTARITY AND CROSS-CUTTING ISSUES

3.1 Lessons learnt

An independent evaluation of Budget Support (BS) was undertaken in 2013[4], to assess the extent to which BS contributed to sustainable results on growth and poverty reduction in Mozambique over the period 2005-2012. It concluded that "*Budget Support has been successful as it made possible a major expansion in education provision, whilst also supporting economic growth and macroeconomic stability and facilitating steady improvements in the quality of public financial management and, to a lesser extent, in governance. These are major achievements, which fully justify the risks which have been taken in providing BS*."

A number of recommendations and lessons learned have been internalised by the BS group:

- Expectations for BS have been unrealistically high and need to be adjusted. What BS can do is firstly provide funding for areas which are clear shared priorities and where tried and tested service delivery strategies exist – such as expansion of education coverage and quality – and secondly to support and guide those institutional reforms for which there is a government commitment;

[4] The evaluation process was led by a Management Group consisting of the European Commission (lead funder), the Ministry of Planning and Development of Mozambique, and the evaluation departments of Ireland, Germany, Belgium, Italy, Finland, the Netherlands and France.

- There is need for revitalising the BS policy dialogue, establishing a more efficient and streamlined central process for assessing and reviewing performance, and creating a more focused dialogue around areas where GBS can have an added value;
- It is important to consolidate and deepen progress achieved in education, macroeconomic management, PFM reforms and transparency and accountability;

The reform process both for the PAF and the dialogue structure has been reflected in the revised GBS Memorandum of Understanding.

The recommendations made by the European Court of Auditors in their 2010 Special report on GBS have also been internalised (in addition to applying the new BS Guidelines, which were a direct result of that Report). This refers to the need for closely monitoring fiduciary risk, e.g. through repeat PEFA (a new PEFA has been launched and funded by the EU in 2015), the need for a rigorous assessment of performance (the quality of PAF indicators has been improved, with detailed technical notes describing how the assessment should be made), and by better defining a dialogue strategy.

3.2 Complementarity, synergy and donor coordination

Regarding EU interventions, **complementarity** is applied at various levels: through the EU support to PFM reforms and to the Rule of Law, two programmes initiated under the 10th EDF and still on-going until 2017. The programmes directly support the Ministry of Finance, the Supreme Audit Institution, the General Attorney (incl. the Anti-Corruption Office), the Supreme Court and the Parliament, hence complementing direct budget support with strengthening of the formal horizontal checks and balances among institutions and powers (executive, judicial, legislative). The EU Delegation will by the end of 2015 analyse results and lessons learned from these programmes and, based on this reflection, prepare future complementary support for the GGDC. Similar programmes are also being supported at regional level, through the EU PALOP-TL[5] cooperation, focusing on peer learning and exchange of best practices.

Secondly, in line with the Cotonou Agreement, around 3% of the NIP envelope is set aside for support to Non-State Actors (NSAs), to be complemented by EU thematic budget lines (including EIDHR – European Instrument for Democracy and Human Rights). NSAs constructive engagement in the entire budget cycle, from policy formulation to monitoring of budget execution and the provision of public quality services, including at the sub-national level, is an important factor for obtaining sustainable results through the GGDC operation. The promotion of transparency and domestic accountability has been mainstreamed in the current PAF and this will continue. Coming from a very low level, NSAs capacity to monitor and track public budgets and revenues and consequently advocate on the main budget documents has been increasingly effective over the last years (though limited to the central level). This is mainly thanks to the strategic partnership established between the Parliament´s Planning and Budgeting Committee and a Budget Monitoring NSA platform. Furthermore, a handful of well organised NSAs produce regular advocacy papers on Governance and PFM topics, which are publicly disseminated, though they do not feed directly into institutionalised domestic accountability mechanisms.

The EU also provides funding to the IMF, through different instruments, to deliver technical assistance, trainings and conduct assessments on Mozambique such as the AFRITAC South (Regional Technical Assistance Centre in Southern Africa), the Trust Fund for Natural Resource Management and the Tax Administration Diagnostic Assessment Tool. This support is complementary to the GGDC as it enhances the Government of Mozambique´s capacity to improve macro-economic policy and PFM reforms´ formulation and implementation.

Complementarity is also ensured with other donors, notably in the PFM area, under the PFM Coordination group (led by the Treasury and currently co-chaired by the EU), to reinforce synergies, avoid duplications, and complement, for example, the short-term IMF missions with more long-term technical assistance. According to the latest donor mapping, about 18 agencies (including the IMF and the United Nations) provide support in this area, with an expected EUR 100 million for the period 2014-2017. The support is

[5] PALOP is the group of Portuguese-speaking African countries, comprising Angola, Cape Verde, Guinea Bissau, Mozambique and São Tomé and Príncipe, and Timor Leste since 2005. PALOP integrated the ACP Group in 1985.

channeled to all PFM-related institutions, covering tax/revenues management, the full budget cycle and its external audit, as well as domestic accountability mechanisms (through parliament or civil society).

Donor coordination. The G19[6] group of agencies providing GBS, regulated by various Memoranda of Understanding, has been in existence in Mozambique since the year 2000. Born from the strong impetus of the Aid Effectiveness agenda, it was even a precursor of the Paris Declaration and a model for many other countries in the region. The G19 created a mechanism for structured dialogue with the Government of Mozambique built around a common results framework (PAF), sector and cross-cutting working groups, with a multi-layered management structure (Economists, Heads of Cooperation, Heads of Missions), a Troika+ system (where EU is a permanent member, together with WB) and culminating in regular 'Political Dialogue' between Heads of Missions and Ministers. This brought influence and access to high-level dialogue with Government.

Based on the recommendations of the BS evaluation and numerous local discussions, a comprehensive revision process to this structure is ongoing, so as to make the GBS dialogue more focused and effective.

3.3 Cross-cutting issues

On cross cutting issues the most relevant items are gender, environment and human rights (especially Right to Information, as a related Law was passed end-2014). By focusing on, amongst others, effective service delivery with an eye for quality and equity, as well as equal access to economic opportunities, the GGDC contributes to various cross-cutting issues.

Mozambique systematically addressed gender issues since independence in 1975, and after Beijing (1995), it established an institutional framework to promote gender equality, creating the National Council for Advancement of Woman and later the Ministry of Women and Social Affairs[7]. Since then, Mozambique witnessed steady improvements in women’s position, with gains in literacy, primary education, maternal health indicators and political participation, especially at central level (36% of female Members of Parliament). The 2014 Mozambique Report on "*Beijing+20"* documents many of the remaining gender gaps e.g. female poverty, secondary education (linked to early marriages), female health.

The EU supports progress towards gender equality through the gender disaggregated indicators related to social sectors identified in the GGDC Performance Assessment Framework. In terms of coordination, a gender group led by the EU contributes to the joint review process set by the Government and partners members in the context of the G19 group and is expected to facilitate reporting on gender issues through Heads of Cooperation and EU Heads of Mission. The EU is also financing the Gender Profile of Mozambique that aims to assess the context (including the financial/budget context) for gender policy and plan of actions, and to identify practical actions to promote efficient gender mainstreaming. It will include a proposed strategic plan of actions to be implemented by the Ministry of Gender, Children and Social Action with the coordinated support of the EU and other development partners.

Environment has been elevated to one of the five priorities identified in the new PQG (2015-2019), "*to ensure sustainable management of natural resources and the environment*". This environmentally friendly boost will ease the way for enhanced consideration of environmental aspects related to public investment management reforms and the extractive industry (which are linked to the specific objectives of the GGDC).

4 DESCRIPTION OF THE ACTION

4.1 Objectives/results

As per the National Indicative Programme (NIP), the overall objective of support to Good Governance and Development is to contribute to poverty alleviation, sustainable and inclusive growth and consolidation of democracy.

[6] The G19 evolved from a small group of four, to 15 in 2004, and 19 in 2009. Since then some members have left the group, currently made up of 14 GBS providers.

[7] Renamed the Ministry of Gender, Children and Social Action in the new Government since February 2015.

In line with the NIP, specific objectives include: improve cross-cutting service delivery aspects; address constraints on sustainable and inclusive growth; strengthen core government systems and supporting broader reforms (macroeconomic, public financial management (PFM)); foster domestic accountability and strengthen national control mechanisms to improve governance including environmental governance.

Indicators derive from the existing and new Performance Assessment Framework (PAF) (covering 2015-2017) and the Five-Year Government Plan (*Plano Quinquenal do Governo*, (PQG)), with a specific focus on systemic issues and allowing both outcome-based indicators and policy actions (see Appendix 1). For the PAF in particular the indicators cover the agreed four priority areas: i) Effective government systems, notably PFM, fiscal risks (also stemming from public enterprises or participated companies), natural resource revenues; ii) Promoting inclusive economic growth, especially for small-scale enterprises and transforming agriculture; iii) Promoting governance, rule of law and domestic accountability, focusing on anti-corruption, external audit, transparency; iv) Effective service delivery, related to social sector concrete outcomes, but also the much-needed public service reform. These indicators respect a whole set of principles guiding the quality of indicators, notably ensuring they are measurable, in appropriate frequency (annually) and disaggregated (gender, geographically) where relevant, with a baseline, and under control of the Government.

The indicators are expected to contribute to the main results identified in the NIP, related to improvements in the quality of PFM (to be measured by Public Expenditure and Financial Accountability (PEFA) scores); in domestic accountability, political governance, the fight against corruption, effectiveness of control mechanisms, including those related to environmental protection; in key indicators related to health and education and cross-cutting service delivery aspects; in the business environment.

4.2 Main Activities

4.2.1 Budget Support

- transfer of EUR 200 million over the period 2016-2019 (fiscal years equal calendar years);
- continued policy dialogue with the Government with a particular focus on the agreed four areas, also reflected in the programme's objectives, as well as political dialogue (notably under Art. 8) on the wider issues concerning the country's commitment to the fundamental values;
- a continued effort to reinforce Government's capacities in the area of PFM in the context of existing and future complementary support programmes;
- continued dialogue between the EU Delegation and other donors to streamline the budget support mechanism with a view to avoiding duplication of activities and relieving the Government from multiple reporting duties;
- regular monitoring of budget support eligibility criteria:
    - Monitoring of achievement of the national development strategy's priority objectives will be undertaken on the basis of annual progress reports (currently the review of performance in the Social and Economic Plan) and other EU or development partners' reviews, supported by regular discussions in the relevant technical working groups;
    - Monitoring of macro-economic developments will be performed in the context of the IMF missions and other relevant assessments;
    - Monitoring of PFM eligibility will be done on the basis of the reviews of the progress on implementation of government's PFM reform strategy and associated assessments;
    - Monitoring of budget transparency will be undertaken through verifying public availability of appropriate documentation.

4.2.2 Complementary support

No complementary support is foreseen in this programme, given that institutional capacity development is provided through PFM and Rule of the Law programmes that are still on-going, and future ones will be elaborated using the 11th EDF funds set aside under Focal Sector 1 (Good Governance and Development) as well as under the support to Non-State Actors (NSAs).

4.3 Intervention Logic

In line with the agreed OECD-DAC (Organisation for Economic Co-operation and Development - Development Assistance Committee) methodology for evaluating budget support operations, the intervention logic of this GGDC can be considered in two parts. The first part covers the effects of the budget support operation, with its associated policy dialogue and capacity development, on public policy, institutions, spending and service delivery. This refers to the first three levels of the evaluation framework: budget support inputs (level 1); direct outputs (level 2) and induced outputs (level 3), bearing in mind that induced outputs will also be determined by government actors and policies *beyond* the budget support package. The second part considers changes in outcomes (level 4) and impacts (level 5) expected from government policies, strategies and spending, but also influenced by a range of other factors (including other government policies, private sector and civil society initiatives, other aid programmes and external factors), which would be assessed during an evaluation.

It is in particular levels 2 and 3 where the effects of budget support are more direct, and that represent the expected benefits of a GGDC in Mozambique, provided the programme can contribute to support the development of coherent policies. The specific objectives and expected results of the programme, reflected in level 3 and 4, are more likely to be observed over the lifespan of the GGDC, while the general objectives (alleviate poverty, sustainable and inclusive growth, consolidate democracies), corresponding to level 5 of the framework (impacts), would probably be visible over a longer period, e.g. covering two successive GGDCs.

5 IMPLEMENTATION

5.1 Financing Agreement

In order to implement this action, it is foreseen to conclude a financing agreement with the partner country, referred to in Article 17 of Annex IV to the ACP-EU Partnership Agreement.

5.2 Indicative implementation period

The indicative operational implementation period of this action, during which the activities described in section 4.2 will be carried out and the corresponding contracts and agreements implemented, is 48 months from the date of entry into force of the financing agreement.

Extensions of the implementation period may be agreed by the Commission’s authorising officer responsible by amending this decision and the relevant contracts and agreements; such amendments to this decision constitute non-substantial amendment in the sense of Article 9(4) of Regulation (EU) 2015/322.

5.3 Implementation of the budget support component

5.3.1 Rationale for the amounts allocated to budget support

The amount allocated for budget support component is EUR 200 000 000, and for complementary support is EUR 0. This amount is based on a number of considerations. At programming stage, it was agreed that around 49% of the country allocation would be directed towards the sector Good Governance and Development, and towards a GGDC in particular. Around EUR 360 000 000 have been put aside for the GGDC operations. This is in line with Mozambique's Development Cooperation Policy that defines Budget Support as the preferred modality, being the most aligned to the country's priorities and making full use of national systems. This first allocation of EUR 200 000 000 somehow represents a frontloading of EU support, in view of the fiscal consolidation efforts that the Government of Mozambique needs to undertake until 2018.

In the past six years (2009-2014), EU GBS represented 2.8% of total revenues and 0.6% of GDP. EU GBS on average represented 16.5% of total GBS, often making the EU as the largest grant GBS provider. Going forward, even though donor dependency has been consistently reducing, reliance of the budget on external assistance remains significant (at 25% for the 2015 budget, and with GBS representing nearly 7% of revenues and 1.5% of GDP), and in fact the fiscal framework for 2016-2018 shared by the Government shows that donor dependency may increase again up to 31% in 2018. GBS is expected to provide nearly 2 percentage points of GDP in fiscal space over these three years, which is not negligible.

Moreover, past performance shows that the authorities have allocated around 60-63% of the national budget resources (including EU budget support) towards priority sectors, in line with the previous Poverty Reduction Strategy Papers. As for effectiveness and specific added value that budget support will bring, the 2014 Budget Support Evaluation confirmed that budget support funds have facilitated an expansion in domestically financed development spending from 3.2% of GDP in 2005 to 6.1% in 2012, hence minimising crowding-out effect vis-à-vis the private sector. In particular, GBS funding has supported the expansion of public spending in the education and governance sectors, alongside a lesser contribution to the agriculture sector. There is strong evidence that the combination of GBS funding through the budget with targeted support to institutions of accountability such as the Supreme Audit Institution (SAI), the Parliament, Civil Society Organisation (CSOs) and the media has created more transparency.

Regarding the track record and absorption capacity of past disbursements, the 6-years Millennium Development Goals-Contract shows a disbursement rate of 94%, including the various FLEX top-ups. In terms of results orientation, Mozambique has a long tradition of national strategies/five-year plans that are accompanied by monitoring systems, even though data production shows some gaps, more so for economic statistics than for human development/social ones. Analysis of the results is also often limited, but over the years a stronger monitoring culture has been developed, including by civil society that monitors government's action. Going forward, the adoption of a single Strategic Matrix for monitoring the Five-year plan will bring more uniformity and coherence to the monitoring system.

5.3.2 Criteria for disbursement of budget support

a) The general conditions for disbursement of all tranches are as follows:

- Satisfactory progress in the implementation of the Five-Year Plan (*Plano Quinquenal do Governo*) and continued credibility and relevance thereof;
- Implementation of a credible stability-oriented macroeconomic policy;
- Satisfactory progress in the implementation of the Government's programme to improve and reform PFM;
- Satisfactory progress with regard to the public availability of timely, comprehensive and sound budgetary information.

b) The specific conditions for disbursement used for variable tranches are the following: satisfactory progress against 8 performance indicators as agreed with the Government of Mozambique. These cover the following areas: PFM (public investment management, transparency and fiscal risks, procurement), governance (fight against corruption, follow-up of audit recommendations), effective service delivery (equity and quality of education, equity and quality of health, inclusive growth).

The chosen performance targets and indicators to be used for disbursements will apply for the duration of the programme. However, in duly justified circumstances, the National Authorising Officer (NAO) may submit a request to the Commission for the targets and indicators to be changed. The changes agreed to the targets and indicators may be authorised by exchange of letters between the two parties.

In case of a significant deterioration of fundamental values, budget support disbursements may be formally suspended, temporarily suspended, reduced or cancelled, in accordance with the relevant provisions of the financing agreement.

5.3.3 Budget support details

The GGDC includes both Fixed and Variable Tranches (VT), with a variable component starting in the second year, and a global VT ratio of 24%. Predictability of the VT is ensured by applying the n-1/n/n+1 mechanism (as for the fixed tranche): the review of performance in year n, based on performance of year n-1, determines commitments for year n+1, hence being on time for the budgetary planning process.

Budget support is provided as direct untargeted budget support to the national Treasury. The crediting of the euro transfers disbursed into metical will be undertaken at the appropriate exchange rates in line with the relevant provisions of the financing agreement aligned to the national procedures in place. A yearly Flow of Funds audit will verify correct channelling of these transfers.

The indicative schedule of disbursements is summarised in the table below (all figures in EUR millions) based on the fiscal year of the partner country.

GGDC	*2016*	*2017*	*2018*	*2019*	*Total (EUR million)*
Tot annual tranche	54	60	60	26	200
Fixed Tranche	54	45	45	8	152
Variable Tranche (VT)		15	15	18	48
VT %	0%	25%	25%	69%	
Overall VT %					*24.00%*

5.4 Implementation modalities for complementary support

N/A

5.5 Scope of geographical eligibility for procurement and grants

N/A

5.6 Indicative budget

	EU contribution (EUR)	**Indicative third party contribution (EUR)**
5.3 - Budget support [Good Governance and Development Contract]	200 000 000	0
5.9 – Evaluation, 5.10 - Audit	0 (will be covered by another decision)	N.A.
5.11 – Communication and visibility	0	N.A.
Contingencies	0	N.A.
Total	**200 000 000**	**0**

5.7 Organisational set-up and responsibilities

While the Financing Agreement is signed with the NAO, located in the Ministry of Foreign Affairs and Cooperation, the main counterpart responsible for the implementation of the GGDC will be the Ministry of Economy and Finance. This implies that the latter should also ensure participation of other relevant ministries in the policy dialogue around the GGDC, as needs arise.

Donor coordination around GBS is ensured through a coordination framework document (Memorandum of Understanding - MoU) agreed between the Government of Mozambique and GBS providers. It defines the objectives of the GBS partnership, its Underlying Principles (related to peace, democracy, rule of law, good governance; prioritization of inclusive growth and poverty reduction; macro-economic stability and sound PFM systems), the broad priority areas of the PAF, and describes the monitoring, dialogue and disbursements mechanisms. A new MoU was signed in September 2015.

5.8 Performance monitoring and reporting

The Government's performance monitoring of the year *n-1* is assessed at the joint Annual Review taking place early on in year *n*, leading to predictable GBS commitments (for both Fixed and Variable tranches) for the year *n+1*. Assessment of performance is based on overall performance with the implementation of the Five-Year Plan (*Plano Quinquenal do Governo* - PQG), its related Economic and Social Plan, as well as on the common PAF. The PAF is a rolling multi-annual matrix (up to 3 years) with results/process/output indicators and respective targets, consistent with the four priority areas mentioned earlier. Responsibility for collecting and providing the material for a full PAF assessment in a timely manner lies with the Ministry of

Economy and Finance. The Annual Review is also the occasion to provide recommendations on the basis of lessons learnt, as an input to the subsequent budget preparation for year *n+1*. The Annual Review ends with a high-level meeting with the Minister of Economy and Finance and other Ministers as relevant.

The Planning Meeting, taking place in the last quarter of the year *n*, is the occasion to discuss the Government's planning instruments such as the MTEF (Medium Term Expenditure Framework), the year *n+1* Budget and the Economic and Social Plan. It will also provide an opportunity for reviewing indicators and targets for the year *n+1*. The Planning Meeting also includes a high-level meeting with the Minister of Economy and Finance and other Ministers as relevant.

General conditions for disbursement of all tranches will be based on the eligibility criteria set in Section 5.3.2.a. In addition, the disbursement of the Variable Tranche will be determined by the assessment made during the Annual Review on the indicators set in Section 5.3.2.b.

The Commission assessment of indicators performance would be based on the joint GBS donors' one, however, the Commission retains the possibility of differing and presenting its own assessment to HQ.

5.9 Evaluation

Having regard to the nature of the action, evaluations will be carried out for this action through a joint mission.

The evaluation reports shall be shared with the partner country and other key stakeholders. The implementing partner and the Commission shall analyse the conclusions and recommendations of the evaluations and, where appropriate, in agreement with the partner country, jointly decide on the follow-up actions to be taken and any adjustments necessary, including, if indicated, the reorientation of the project.

The financing of the evaluation shall be covered by another measure constituting a financing decision.

5.10 Audit

Without prejudice to the obligations applicable to contracts concluded for the implementation of this action, the Commission may, on the basis of a risk assessment, contract independent audits or expenditure verification assignments for one or several contracts or agreements.

The financing of the audit shall be covered by another measure constituting a financing decision.

5.11 Communication and visibility

Communication and visibility of the EU is a legal obligation for all external actions funded by the EU.

Communication and visibility activities will, in principle, be undertaken jointly by the Government of Mozambique and the European Commission. Such activities may include the issuance of joint press releases, debates with civil society, parliament and the press.

In terms of legal obligations on communication and visibility, the measures shall be implemented by the Commission, the partner country, contractors, grant beneficiaries and/or entrusted entities. Appropriate contractual obligations shall be included in, respectively, the financing agreement, procurement and grant contracts, and delegation agreements.

The Communication and Visibility Manual for European Union External Action shall be used to establish the Communication and Visibility Plan of the Action and the appropriate contractual obligations.

APPENDIX - INDICATIVE LIST OF RESULT INDICATORS[8]

The inputs, the expected direct and induced outputs and all the indicators, targets and baselines included in the list of result indicators are indicative and may be updated during the implementation of the action without an amendment to the financing decision. The table with the indicative list of result indicators will evolve during the lifetime of the action: new columns will be added for intermediary targets (milestones), when it is relevant and for reporting purpose on the achievement of results as measured by indicators.

	Intervention logic	Indicators	Baselines (incl. reference year)	Targets (incl. reference year)	Sources and means of verification
Overall objective: Impact	Poverty alleviation, promotion of inclusive and sustainable growth, consolidation of democracy	Income and non-income poverty	2009/2010: 54%	< 54% (pending IOF publication)	IOF (Inquérito ao Orcamento Familiar – Household Budget Survey) available in 2016,
Specific objective(s): Outcome(s)	Improve cross-cutting service delivery aspects	Institutional deliveries coverage ** (PAF)	2014: 71%	<u>2015</u>: 72% <u>2016</u>: 73% <u>2017</u>: 75%	Strategic Matrix progress report; i.e. Balanço do PES (Plano Economico e Social - Economic and Social Plan) PQG Ind., PAF Report: PAF Ind. # 15
Specific objective(s): Outcome(s)	Improve cross-cutting service delivery aspects	maternal mortality ratio*, **	2011: 408 deaths per 100,000 live births	<u>2017</u>: = or < 190 (real data only available after survey – done every 5 years)	National Surveys, Health Ministry reports NIP Ind # 2
Induced outputs	Expand access and improve quality of health services	no. of health workers per 100,000 inhabitants* ** (PAF)	2014: 94	<u>2015</u>: 98.8 <u>2016</u>: 103.0 <u>2017</u>: 106.8	Balanço do PES PQG Ind., NIP Ind # 1, PAF Report: PAF Ind. # 15

[8] Indicators aligned with the NIP are marked with '*' and indicators aligned to the EU Results Framework with '**'.

Specific objective(s): Outcome(s)	Improve cross-cutting service delivery aspects	% of pupils in grade 3 primary school who attain basic competences in reading and numeracy * (literacy and numeracy rates), ** (PAF)	2014: 6.3%	2015: Testing of the instruments for the national evaluation on basic reading and numeracy competences 2016: > 6.3% (reading – second evaluation) 2017: Report available, disseminated and debated (at national, provincial and district level)	Balanço do PES PQG Ind. NIP Ind # 3, PAF Report: PAF Ind. # 14
Induced outputs	Expand access and improve quality of education services	Coverage of school supervision and follow-up visits ** (PAF)	2014: School supervision manual being drafted	2015: School Supervision Manual prepared, adopted and distributed 2016: 25% of Primary Schools (EPCs) supervised and 40% of those with follow-up visits conducted 2017: 50% of Primary Schools (EPCs) supervised and 60% of those with follow-up visits conducted	Balanço do PES – PQG Ind. PAF Report: Ind. # 14
Specific objective(s): Outcome(s)	Address constraints on sustainable and inclusive growth	Score in the Doing Business (DB) – measured by Distance to Frontier (DtF) * **	2014: 54.98 (overall DtF)	2015: increase >1.87pp 2016: increase >1.87pp 2017: increase >1.87pp	WB (World Bank) DB NIP Ind. # 4, PAF Report: PAF Ind. # 8
Induced outputs	Improve the business environment	Nr. of procedures to open a business	2014: 10	2017: 7	PQG Ind.
Specific objective(s): Outcome(s)	Strengthen core government systems and supporting broader reforms (macro, PFM)	Open Budget Index (OBI)*	2015: 38	Measured every 3 years 2018: > 38	OBI NIP Ind. # 5

Specific objective(s): Outcome(s)	Strengthen core government systems and supporting broader reforms (macro, PFM)	PEFA overall scores *	2015	Measured every 3 years 2018: > scores of the 2015 Report	OBI NIP Ind. # 7
Induced outputs	Improvements in Public Investment Management	% of public investment projects screened according to sound procedures for project selection (PAF) **	2014: instruction sent to Line Ministries	2015: summary information in the State Budget (SB) 2016 2016: summary information in the SB 2017 - reduced threshold 2017: summary information in the SB 2018 - reduced threshold	PAF Report, PAF Ind. # 2
Induced outputs	Improvements in the quality of PFM (Public Financial Management)	Use of competitive procurement procedures ** (PAF)	2015: 48% (on 2014 expenditure)	2015: 50 % of 2015 expenditures 2016:55% on 2016 expenditures 2017: 60% on 2017 expenditures	IFMIS (Integrated Financial Management Information System) Report, PAF Report: PAF Ind. #5
Induced outputs	Improvements in the quality of PFM (Public Financial Management)	Improvements in transparency and management of fiscal risks (PAF) **	2014: IMF FTE	2015: follow-up Action Plan approved; Strategy on Public Debt 2016-18 approved 2016: Statement on Fiscal Risks issued (SB 2017) 2017: Statement on Fiscal Risks issued (improved) & reporting on fiscal risks (SB 2018)	Balanço do PES PQG Ind PAF Report PAF Report: PAF Ind. #3
Induced outputs	Improvements in the quality of PFM (Public Financial Management)	Public expenditure coverage of external audits*	2014: State accounts 2013 20% (overall), 40% (specific Audits)	2015: State accounts 2014 > 20% (overall) & > 40% (specific audits) 2016: State accounts 2015 > 20% (overall), > 40% (specific audits) 2017: State accounts 2016 > 20% (overall), > 40% (specific audits)[9]	SAI (Supreme Audit Institutions) progress Reports NIP Ind. # 6

Specific objective(s): Outcome(s)	Foster domestic accountability and strengthen national control mechanisms to improve governance including environmental governance	WBI (World Bank Indicator) Government Effectiveness*	2013: 30.6%	2018: > 30.6%	WBI NIP Ind. # 8
Specific objective(s): Outcome(s)	Foster domestic accountability and strengthen national control mechanisms to improve governance including environmental governance	WBI Control of Corruption*	2013: 29.7%	2018: > 29.7%	WBI NIP Ind. # 9
Induced outputs	Effective fight against corruption	% of Asset Declarations (a) deposited and (b) verified (PAF) **	2014: 40%	2015: (a) 100% no target for (b) 2016: a: 100% and b: 20% 2017: a: 100% and b: 25%	MoJ (Ministry of Justice) Balanço do PES PQG Ind PAF Report: PAF Ind. #11
Induced outputs	Foster domestic accountability and strengthen national control mechanisms to improve governance including environmental governance	Follow-up of Audit report recommendations (issued by the SAI) * * (PAF)	2014: 16%	2015: 35 % 2016: 20%[10] 2017: 30%	Reports from SAI and MEF (Ministry of Economy and Finance) NIP Ind. # 10 PAF Report: PAF Ind. #6