

# UNICEF Mozambique: Engaging in Public Finance Management – a system-wide approach to sustainable

## Abstract

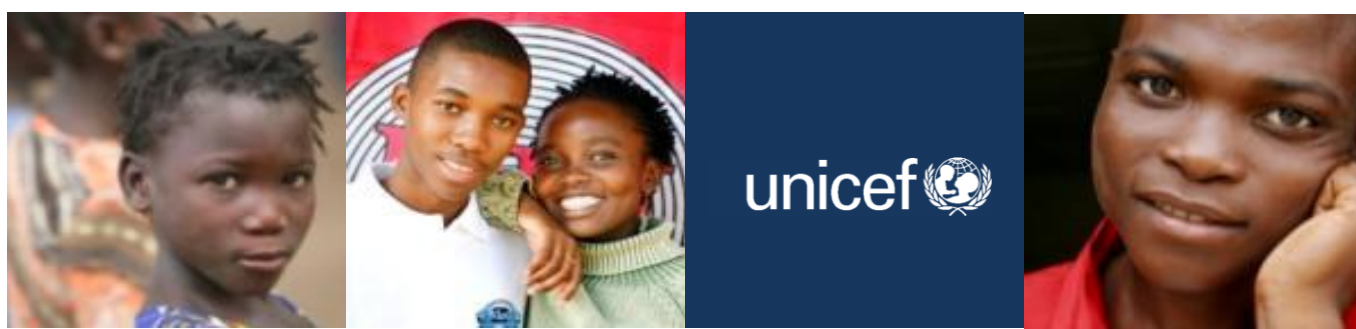
**In Lewis Carroll's, *Alice in Wonderland*, Alice asks the Cheshire cat to tell her the way to go. "That depends a good deal on where you want to get to," answers the cat. "I don't much care where," Alice replies, "as long as I get somewhere." The cat responds, "Oh, you're sure to do that, if only you walk long enough."**

Working on Public Finance Management (PFM) system is a *means* to better understand how national institutions, administrative processes and financial systems operate. As such, it complements UNICEF work in social sectors by grounding them in a broader discussion of accountability, ownership and sustainability of development assistance. If national PFM are functional, social sectors also tend to perform well. If PFM systems fail, repercussions will be visible everywhere. The realisation of children's right to health, for example, is contingent upon a complex decision-making process that determines how scarce productive resources are allocated and health services distributed in a particular society. Failure to understand this system-wide environment– and the trade-offs involved – may not only delay the achievement of results but make them unsustainable in the long term.

Strengthening PFM systems is also a *goal* in itself. This case looks at four PFM focus areas directly supported by UNICEF Mozambique, namely: (1) increasing transparency and participation of civil society and parliaments in PFM dialogue; (2) strengthening domestic accountability around PFM issues; (3) supporting government capacity-building for evidence-based strategic planning and budgeting; and (4) supporting aid coordination. The experience highlights several critical lessons. Working on PFM requires moving beyond small ad hoc projects and focusing on a larger development agenda. Against this background, a child-exclusive discourse may not be very persuasive. Instead, focus placed on evidence, with attention to child development indicators is more effective. Engaging in PFM goes beyond aiming for increased budget allocations. Legislation, enforcement, overall capacity, economic growth, as well as demand-side constraints, all play a role in the realisation of children's and women's rights. In a world of scarce resources, taking the most effective and efficient route to development is as important as the final destination.

## Background

In recent years, Mozambique has embarked on major public administration and finance management reforms. The decentralisation process, which began in 1997 with the establishment of 33 municipalities with financial and administrative autonomy, triggered a shift in planning and management of public resources. The 2002 Public Finance Management Reform (SISTAFE) law replaced the colonial administrative and financial systems from 1901, updating and harmonising the rules of public administration and finance applicable to all State institutions. These reforms brought more transparency, clarity, regulations and improvements to a number of PFM related issues.



### Putting PFM to work in the Mozambican context

Working on public finance management is somewhat different from child friendly budgeting or gender responsive budgeting. PFM is a broader field. It involves all phases of the budget cycle, but is not limited to them. It consists of a broad set of laws, regulations, procedures and institutions that govern public financial and administrative systems in a given country. In addition, its immediate goal is not to necessarily influence increased budget allocations for children or women. Instead, the purpose is to strengthen and enable government systems to implement equitable policies in a sustainable, efficient and effective way.

Despite the reform, many challenges remain. Reliance on foreign aid (44 per cent of the 2011 State budget is financed by external resources) tends to lead to a donor-driven PFM dialogue and a shift in government accountability. In addition, without internal demand and lack of constant monitoring by domestic actors, PFM reforms may not be sustainable over time. Institutional problems also exist. National plans, policies and priorities, for example, are not always linked to evidence-based information or adequately reflected in the State budget.

The decentralisation process has also been slow and a large amount of external aid often bypasses the government, creating parallel systems. Finally, poverty has stagnated over the years and the fiscal space for increased investment in human capital and poverty reduction strategies is limited. These contexts and scenarios have direct implications on the effectiveness of pro-poor policies and thus, the realisation of child rights.

### Strategy and implementation

UNICEF Mozambique's approach to PFM reforms is based on the understanding of how public finance and administrative systems operate as a means to ensure the effective implementation of equitable, sustainable and pro-poor policies and interventions. This UNICEF Mozambique's upstream engagement in PFM indirectly complements and strengthens the traditional work done in social sectors (namely health, education, social protection, water and sanitation) by making them more responsive to the country context and realities. Without this system-wide approach, good sectoral policies may not be properly implemented because systemic obstacles and institutional bottlenecks are endemic. If national PFM are functional, social sectors also tend to perform well.

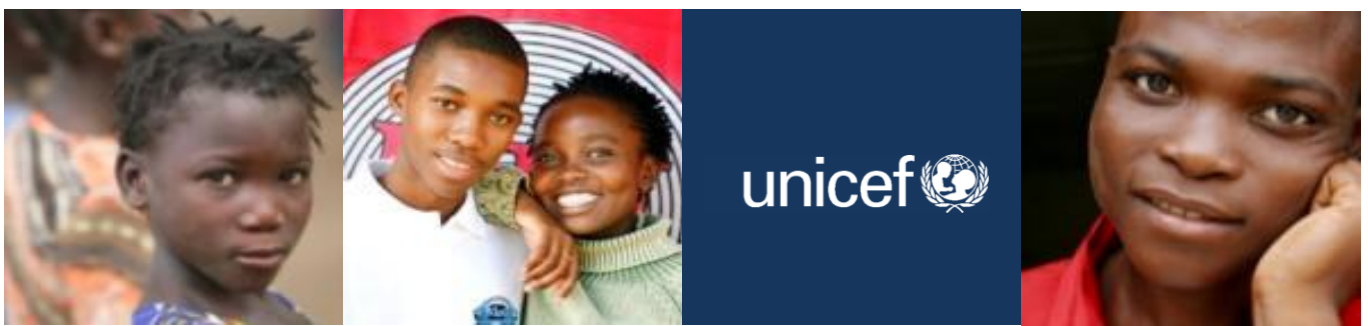
This approach draws on a long-term take on development which is grounded on human rights principles of accountability by strengthening the capacity of duty-bearers to promote and fulfil human rights through sound and efficient public systems. It also supports the capacity of rights-holders (i.e. represented by civil society) to monitor the implementation of public policies and the allocation of public resources in a way that enables the progressive realisation of their rights, poverty reduction strategies and good governance. Thus, sustainability and ownership underlie UNICEF's approach to PFM.

This multi-faceted approach involves three components:

- 1) Various engagement strategies including advocacy, capacity building and partnerships;
- 2) different technical entry points of PFM engagement (applied budget work, evidence-based planning, capacity development and aid coordination); and
- 3) use of various instruments of analysis, such as the State budget, the Medium Term Expenditure Framework (MTEF) or Poverty Reduction Strategy Papers.

In collaboration with different actors, from the Ministry of Finance to civil society organisations, the initiative aims at:

- 1) Increasing transparency and participation through applied budget work;
- 2) strengthening domestic accountability in general, and specifically around PFM issues;



- 3) strengthening government capacity by mainstreaming evidence-based strategic budgeting and priority-setting; and
- 4) promoting aid coordination.

### ***Increasing Transparency and Participation: Applied Budget Work***

‘Meaningful’ participation has always been an elusive concept. In the context of PFM, this is made more difficult because budget and planning instruments are either hard to understand or not easily accessible. If people cannot understand these documents, or have access to them in a timely fashion, they cannot engage in any technical dialogue needed for monitoring and advocacy in relation to different issues in PFM.

In response, UNICEF has been producing the Budget Brief series (now in its fourth year) in collaboration with the Foundation for Community Development (FDC), a national non-governmental organisation. The purpose of the briefs is twofold. First, they translate complex information into reader-friendly documents to foster public debate and participation of civil society, parliaments, line ministries and other stakeholders on PFM-related issues. Second, they offer an analytical overview of trends in resource allocation and execution rates overtime for contextualised understanding of budget proposals.

In addition to demystifying the budget and its related processes, the budget briefs also unveil the importance of moving beyond advocacy messages that call for increased budget allocations to social sectors. They emphasise, for example, issues related to efficiency (what is the absorption capacity of ministries to manage increased allocation of funds?) and equity (are resources reaching the most vulnerable groups?). Often, the briefs compare these trends in resource allocations against human development indicators and the multi-dimensional aspect of poverty across provinces.

The briefs are accompanied by an ambitious dissemination strategy. Over 10,000 documents are distributed each year and multiple presentations and media conferences are held for stakeholders from civil society to ministers in social sectors.

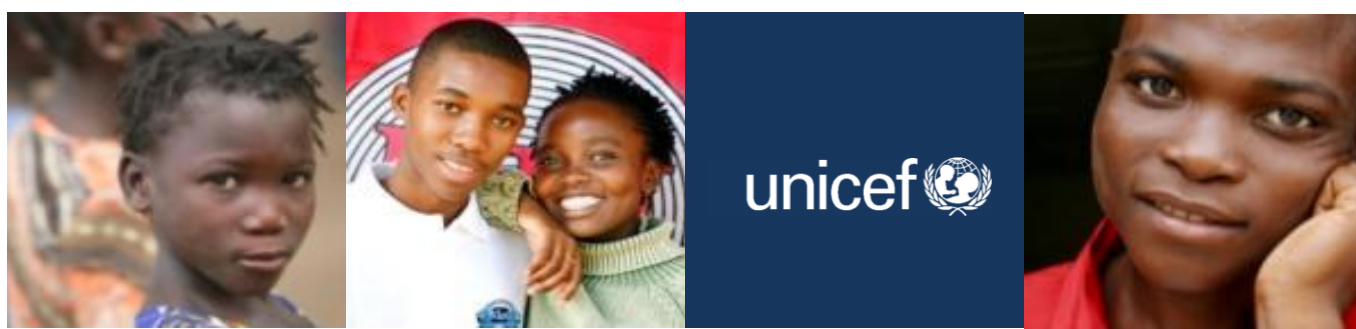
### ***Strengthening domestic accountability: the role of ‘watchdogs’***

In order to strengthen domestic accountability, access to simplified budget information is coupled with capacity building of NGOs and the parliament.

The office has supported the creation of a Civil Society Budget Monitoring Forum which was established in early 2010. The Forum brings together over 20 NGOs and media representatives and is led by four national civil society organisations. The objectives of the Forum are threefold: (1) strengthen capacity of civil society around PFM issues for evidence-based advocacy; (2) serve as a hub for information sharing; and (3) act as an identifiable civil society coalition capable of engaging in dialogue with donors, government and the parliament on budget-related issues.

The office supports these goals in two ways:

- 1) An expert consultant provides regular capacity building training on PFM-related topics selected by the Forum. Sessions are short (half-day) but regular (three times a month) – a recognition that ad hoc capacity building sessions on these complex themes simply do not work. Topics have ranged from decentralised planning and budgeting processes to public procurement and aid modalities.
- 2) The Forum is linked with different stakeholders. Capacity building sessions invite speakers from the Ministry of Finance, the parliament and donors.



In collaboration with UNDP, UNICEF has secured an exclusive partnership to provide technical support to the Parliamentarian Plan and Budget Commission. Once again, ad hoc trainings are avoided. Instead, focus is placed on monthly specialised advisory services to the 15 members of the Commission and its four technical staff. This support focuses on on-the-job assistance geared towards understanding and analysing the State Budget and national plans proposals before their approval by the wider parliament. Budget literacy is coupled with continuous dissemination of evidence-based information about the situation of children and women in the country. A field monitoring guide was created, for example, to support Members of Parliament during their field trips to gather data on whether resources are in fact being used efficiently and effectively.

The regularity of these expert services is made possible through use of long term agreements (LTAs). These flexible contract modalities ensure the availability of a pool of expert consultants under fixed price agreements for a range of technical PFM services, which can simply be requested by emails and paid through submission of invoices. This contractual modality has reduced UNICEF staff time spent on developing individual and ad hoc contracts and incurred significant cost savings for the organisation.

### ***Evidence-based budgeting and priority-setting plans: capacity development of the Ministries of Finance and Planning.***

An official partnership with the Ministry of Finance began in 2010 with the endorsement of a work plan by the National Directorate of the Budget (DNO). The partnership aims at strengthening the capacity of this institution to implement a more equitable and evidence-based pro-poor budget in line with national priorities. In addition, support has been provided to DNO to strengthen linkages and synergies with social sectors and the Ministry of Planning and Developing (MPD).

An economist was hired to support DNO in all areas of budget preparation. The consultant has also been tasked to support social sectors (i.e. education, health, social action and water and sanitation) in the formulation of more realistic budgets and evidence-based programme classifiers, with a focus on programmes involving children.

The bridge between Ministry of Finance and Ministry of Planning, as well as social sectors, is critical. Often, social sectors end up preparing unrealistic budgets that are neither well-planned nor evidence-based. Similarly, increased synergies are needed with MPD, which is responsible for developing key planning instruments which are (or should be) directly linked to the State Budget, namely, the annual Economic and Social Plan and the MTEF.

This work is anchored on data analyses, studies and evaluations based on the latest data available, such as the Multiple Indicator Cluster Survey (MICS 2008), which are disseminated through presentations (often done by the National Institute of Statistics), workshops and sharing of informational materials. The idea behind it is to ground the development of these important planning and budgeting instruments on evidence since in a context of scarce fiscal resources, priorities and trade-offs have to be made.

### ***Aid coordination***

The Paris Declaration on Aid Effectiveness and Accra Agenda for Action highlight the need for increased simplification, harmonisation, alignment and transparency of aid disbursements, practices and procedures. Particular focus has been placed on two indicators from the Paris Declaration, namely, being on-budget and increasingly using government systems.



In terms of transparency, parliament and civil society organisations should have a full picture of the State Budget, including where funds come from and what they are earmarked for. It is extremely important given the country's aid structure. High levels of off-budget aid (external aid without reporting to the government), partial disclosure of information on financial commitments and execution rates, late disbursements of aid, use of parallel systems (such as procurement procedures) end up obstructing the supervisory roles of both civil society and parliament.

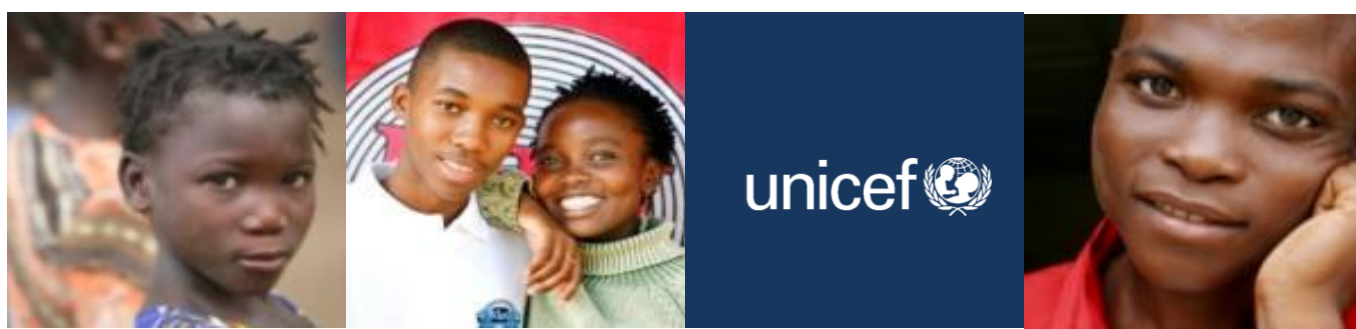
To strengthen aid coordination, UNICEF Mozambique focuses on four areas of interventions:

- 1) *Strengthening the capacity of the government in the aid coordination process.* A consultant was seconded to MPD to work on aid coordination issues. In addition, UNICEF is working with the Ministry of Finance and donors in the development of guidelines and tools to improve the way external resources are registered on the State Budget and MTEF. This is meant to improve the accuracy of aid data captured on budgeting and planning documents to address the vast amount of off-budget in the country.
- 2) *Internal commitment to alignment and harmonisation.* UNICEF has long reported its financial assistance on government planning and budget instruments. This involves reporting commitments to the MTEF (i.e. being on plan); the State Budget (i.e. on budget); and the State Budget Execution Reports (i.e. on report). While time-consuming for UNICEF staff, these on-plan, on-budget and on-report procedures are critical to ensure transparency, public access to information and accountability both from UNICEF towards government, but also in relation to all implementing partners receiving funds from UNICEF.

Information on UNICEF execution rates, for example, is compiled on a quarterly basis. Tables with detailed expenditures by sectors and implementing partners are shared with line ministries for improved oversight of projects and with the Ministry of Finance for inclusion in the Budget Execution Reports. This work is very time-consuming and demanding, and requires senior management leadership and support. At UNICEF Mozambique, compliance with these internal reporting practices is measured and assessed through annual management indicators directly linked to the performance of the representative.

- 3) *Increasing mutual accountability of the UN towards the government.* The office is trying to expand its on-plan, on-budget and on-report practices on-plan means that UNICEF's programmes are aligned with the government's plans (assessed via sector's strategies and policies or through the MTEF); on-budget means UNICEF's financial commitments are registered in the state budget; on-report means UNICEF's execution rates appear on government's execution reports to the rest of the UN at the country level, through presentations at the UN Country Team and advocacy efforts targeting individual agencies.
- 4) *Contribution to sectoral common funds and participation in sector wide approaches (SWAs).* The office also channels funds through three common funds, namely PROSAUDE (health), FASE (education) and PRONASAR (rural water supply and sanitation). The latter was recently established under leadership of the office. These common funds and implementation mechanisms can be seen as an entry point for greater alignment and coordination among different stakeholders and donors and are especially relevant to Mozambique where the aid structure is extremely complex. The UNICEF Eastern and Southern Africa Regional Office (ESARO) is currently assessing the effectiveness of this engagement.

## Progress and results



Although the work in support to PFM systems is strategic rather than output-based, results can nevertheless be identified. Results obtained under each strategic component of the direct PFM engagement are:

#### *Improved transparency and participatory processes*

The Budget Brief series have contributed to increased transparency in the PFM dialogue by producing and widely disseminating budgeting and planning information using simplified language and informative analyses. These documents - and accompanying presentations/workshops – also enhance participatory processes around PFM-related topics among various stakeholders. In 2010, for example, separate presentations on the main findings of the budget briefs were held to the Ministers of Education, Health, Social Action and Public Works (for Water and Sanitation). The ministers welcomed the information and analyses and urged closer collaboration with UNICEF on recommendations on how to tackle some of the bottlenecks identified. In the case of the Ministry of Women and Social Action, for instance, the minister appointed the sector's budget and planning personnel to participate in the UNICEF-sponsored PFM course with technical staff from the Ministry of Finance (see further below).

#### **UNICEF and the Budget Monitoring Forum**

UNICEF Mozambique provides technical support to the Forum, but it's not a member of it. This is to ensure 'sustainability' of the coalition as a civil society-led initiative. However, determining the optimal level of UNICEF involvement can be difficult.

The Forum is not a child rights network. A child exclusive focus would exclude many leading NGOs from joining the coalition simply because they do not work on child rights. However, child rights are constantly discussed in the Forum sessions.

#### *Strengthened domestic accountability*

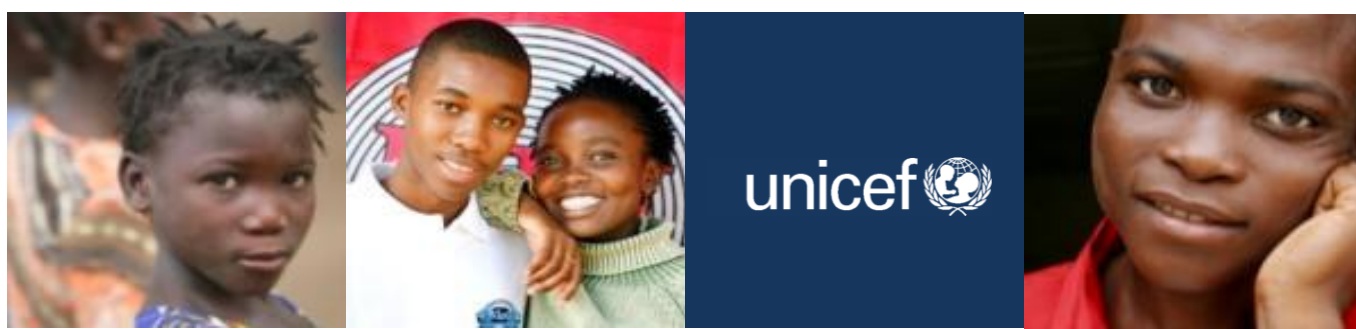
Having access to reader-friendly information on PFM issues is not enough to ensure meaningful participation in PFM dialogue. This is an area where regular capacity development of both NGOs and the parliament is required. In the case of the former, the establishment of a civil society Budget Monitoring Forum has contributed to ensure that a network of national NGOs is strategically positioned to influence policy-makers towards better decisions on PFM issues. For the first time, both Forum and parliament met to jointly review the State Budget proposal for 2011. In addition, the main concerns of the Forum regarding Government's plans and priorities for 2011 were acknowledged and addressed in a written statement by the Ministers of Finance and Planning.

#### *Bringing planning and budgeting together under an equity and evidence-based framework*

A four-day workshop on the fundamentals of PFM was organised for 40 technical staff responsible for the preparation of the State Budget, the Economic and Social Plan and the MTEF. The workshop brought together staff from the Ministry of Finance and the Ministry of Planning, which were a single ministry until 2004. The workshop was facilitated by consultants and led by Government staff responsible for developing those key instruments. To ensure the perspective of the social sectors, technical staff from the Ministry of Women and Social Action also participated in the workshop. This enabled the participants to identify obstacles and opportunities in these planning and budgeting processes, from the perspectives of the Ministry of Finance and sectoral ministries, in order to make these instruments more cohesive, strategic and based on national priorities. The workshop also served as a channel to disseminate trends from latest data collection and analyses (MICS 2008). All group exercises, examples and case studies during the workshop were data-based, ensuring that participants would learn how scarce resources should be allocated with a equity focus.

#### *Supporting the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action*

Since 2008, UNICEF Mozambique has achieved 100 per cent compliance with self-imposed reporting procedures to ensure that its financial assistance is reflected on-plan, on-budget and on-report. This



information helps the Government have a realistic overview of expenditures and develop more rational plans and budgets. In addition, a toolkit documenting these good practices was developed and endorsed by the Government and the UN Country Team for further dissemination and adaptation.

## Lessons learned

### ***Go beyond UNICEF-centric programmes***

Working in PFM requires an understanding that the goal of development assistance is not the implementation of UNICEF-supported interventions per se. Rather, the goal is to make government – through their public financial and administrative systems – more equipped to fulfil the rights of its population. This support is done in a very upstream manner, moving beyond small ad hoc projects and focusing on the 'bigger picture' This requires an understanding of where UNICEF-supported programmes can be more strategically placed to ensure efficient and effective results. A comprehensive knowledge of national government systems is required.

### ***Child focused (based on evidence) but not child-exclusive***

A change in approach is needed when engaging in PFM. Preserving macro-economic stability is a key concern for the Ministry of Finance, for example. That requires maintaining fiscal balance, in addition to promoting stable economic growth, keeping inflation low and encouraging full employment. Against this background, a child-exclusive discourse may not be very persuasive. Instead, focus is placed on evidence, with attention to child development indicators. For instance, mentioning that Mozambique has the 22nd highest under-five child mortality in the world or citing that almost half of the population suffers from malnutrition provide very strong arguments when discussing policy and budget allocations to the health sector.

### ***It's not always about increased allocations***

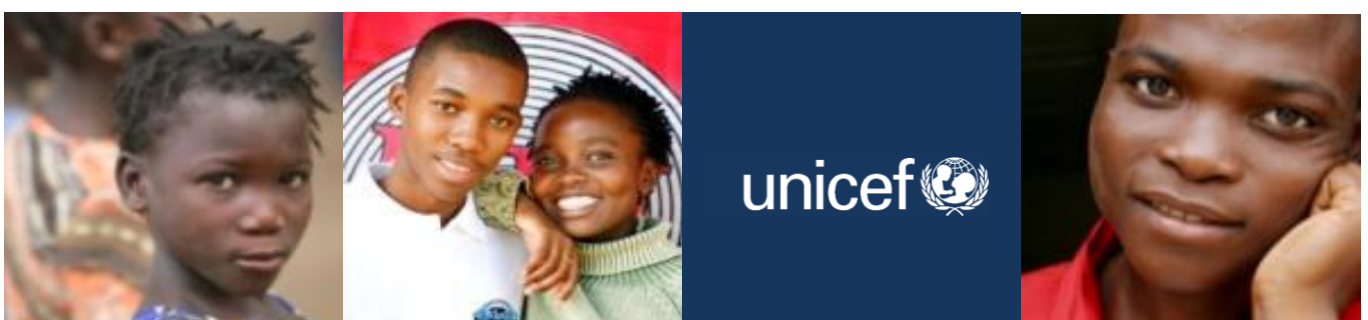
When advocating for more funds for the education sector, for example, attention should be drawn to whether the ministry has the adequate absorptive capacity to manage increased funds. Efficiency of scarce resources is critical. One should also try to propose where these additional funds would come from. Finally, it's also important to acknowledge that lack of money is not always the problem. Other elements – legislation, enforcement, overall capacity, economic growth, as well as demand-side constraints - all play a role in the realisation of children's and women's rights. Looking at PFM systems as a whole helps frame these advocacy interventions in a more cohesive way, while understanding the importance of macro-economic stability and fiscal space constraints.

### ***Engaging in PFM requires comprehensive and concurrent interventions***

Focusing only on budget analyses, for example, is not enough to even begin tackling the many inter-related elements of social budgeting work. Two areas that are often neglected are aid coordination and national planning processes and instruments. The former is critical in ensuring the comprehensiveness and predictability of the national budget – and this is also an area where the responsibility for action lays with donors and the UN, and not necessarily with the government. Planning is also important as it provides (or should provide) the strategic foundation to decide on priorities and trade-offs required for efficient budget allocations. To ensure sustainable reforms, civil society organisations and the parliament should be included in this dialogue.

## Potential application

The approach and lessons learned described here can be replicated to other offices and adapted to country contexts, particularly if there is work already being done in budget analysis. Offices interested in beginning engagement in this area should consider conducting an initial needs assessment to map the level of work done by partners in support to PFM to avoid duplication of



interventions and programmes. A briefing on national PFM systems should be made available to all UNICEF staff as an entry point to provide an overview of how Government systems are operationalised and to identify bottlenecks and opportunities for policy interventions. From there, more specific programmes can be developed, if needed. The use of LTAs for hiring PFM experts is also recommended to reduce time spent in contractual processes and transaction costs.

### Next steps

With regard to the PFM initiative, UNICEF Mozambique's priorities for 2011 include the following:

- Develop a pilot initiative for use of the Government Single Treasury Account (CUT) for funds disbursement Use Government programme budgeting classifications in UNICEF internal planning (such as in Annual Work Plans).
- Strengthen collaboration and coordination across UNICEF sectors around PFM, sector financing and policy issues, particularly through the creation of an internal policy/PFM working group.
- Advocate with donors to report their financial assistance on the Government budget, particularly those with significant amounts of off-budget aid.
- Provide technical support the Civil Society Budget Monitoring Forum to forge regional and international coalitions with NGOs doing similar work. Similarly, the Forum will concentrate on specific applied PFM research around topics selected in collaboration with the parliament to ensure more clarity before the approval of the State Budget.
- Encourage greater involvement of the parliament in its oversight role for aid coordination and approval of the MTEF.
- Together with the Ministry of Finance and the Civil Society Budget Monitoring Forum, ensure transparency, particularly around timely access to public PFM documents.
- Provide support to the Ministry of Finance to develop guidelines on aid coordination.
- Advocate for the development and approval of equitable criteria for budget allocations across provinces based on child development indicators and levels poverty incidence.

### Information

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