



IFAD
INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT
Executive Board – Seventh-Third Session
Rome, 12-13 September 2001

REPUBLIC OF MOZAMBIQUE

PRESIDENT'S MEMORANDUM

**FAMILY-SECTOR LIVESTOCK DEVELOPMENT PROGRAMME (LOAN 432-MZ) –
PROPOSAL TO PASS IFAD LOAN FUNDS THROUGH THE COMMON FLOW OF
FUNDS MECHANISM OF THE AGRICULTURAL SECTOR INVESTMENT
PROGRAMME (PROAGRI)**

I. BACKGROUND

1. **Family-Sector Livestock Development Programme.** At its Fifty-Ninth Session in December 1996, the Executive Board approved a loan of SDR 13.45 million to the Government of Mozambique on highly concessional terms for the Family-Sector Livestock Development Programme (FSLDP). The Programme, which has as its overall objective to support the increase of livestock production and livestock-derived income among smallholders in Mozambique, was from the outset intended both to support the development and establishment of the then-planned Agricultural Sector Investment Programme (PROAGRI) and subsequently to contribute to the achievement of its objectives.
2. Implementation of FSLDP commenced in mid-1998, and in March/April 2000 a first implementation review was undertaken. Following the review, a number of substantive modifications have been made to the design of FSLDP, including realigning strategic priorities, programme activities, and management responsibilities and implementation procedures; reorganizing components so that they conform to those of PROAGRI, and fitting the annual workplans and budgets (AWP/Bs) within those of PROAGRI at the provincial and central levels. However, IFAD funding remains tied to specific PROAGRI sub-components, activities and sub-activities, rather than to the larger components that they make up; and this undermines IFAD's ability to play a substantive role in the broader subsectoral or sector-level policy dialogue with Government.



3. IFAD disbursement under FSLDP amounts to SDR 4.66 million; SDR 8.79 million (65%) represents the available balance. The loan closing date is currently scheduled for 31 December 2004.

4. **PROAGRI** represents the Government of Mozambique's programme to reform and support the activities of the Ministry of Agriculture and Rural Development (MADER). The Programme is intended to cover, over the five-year period 1999-2003, the totality of the country's agricultural-sector public expenditure managed by MADER. With a total budget of USD 202 million, it is funded by the Government and receives financial support from some 20 donors and international agencies. PROAGRI was appraised in May 1998 by a multi-donor team, and its implementation formally commenced in January 1999. Substantial and positive progress has been made in the development of its management systems, and all partners – Government and donors – remain fully committed to PROAGRI.

5. The overall goal of PROAGRI is to help secure an appropriate enabling environment for sustainable and equitable growth in the agricultural sector, so as to reduce rural poverty and improve household food security while protecting the physical and social environment. To that end, PROAGRI aims to put in place improved institutional arrangements for the financing and delivery of agricultural services for the family sector, and develop the capacity to efficiently and effectively provide for the essential public functions of MADER. It is also involved in introducing a more coherent and effective vehicle for channelling and managing donor assistance to the sector, replacing fragmented donor-driven projects with a comprehensive programme consistent with the new role of the Ministry. The management of PROAGRI is guided by three principles:

- A commonly agreed set of *basic principles* that define the nature and direction of MADER's transformation. The basic principles constitute a contract between the donors and Government, and MADER's success in implementing and operationalizing them form the basis of annual reviews and incremental funding.
- A standard format for all *AWP/Bs*, which guide all activities and related expenditures under PROAGRI and are the basis for the donors/financing institutions to make annual funding commitments over the next year. PROAGRI is made up of 18 AWP/Bs: eight for the subsectoral components and 10 for all of the provinces.
- A Government-managed *common flow of funds mechanism*. Donors have agreed to gradually hand over responsibility for financial management to MADER. A common flow of funds mechanism (CFFM) has since been established, and a number of donors are already providing support through it¹.

6. The purpose of the CFFM is enable Government to more efficiently manage resources, made available from a number of different sources, destined to provide support for public services to the agricultural sector. The system is designed to channel donors' financial support to PROAGRI through the public sector budget in a common way – the same way that the Government's own-generated funds go through the budget. It is associated with the adoption of common procedures for commitment of funds, disbursements, procurement, reporting, monitoring and evaluation and financial management and auditing. In doing so, it also aims at improving the exchange of information and cooperation between the donors and Government in respect of the implementation of PROAGRI.

¹ These include: Danish International Development Assistance, the Government of The Netherlands, the European Commission, Irish Aid, Swedish International Development Cooperation Agency, the Department for International Development of the United Kingdom and the United States Agency for International Development. The World Bank is preparing to enter later this year.



7. **Memorandum of Understanding.** The principles and features of the CFFM have been captured in a memorandum of understanding (MOU). The MOU formalizes the procedures and regulations under which support will be channelled through the CFFM: for financial management, procurement, disbursements, and the exchange of information and cooperation between the parties in respect of the implementation of PROAGRI and the achievement of its objectives. In May 2001 the MOU was signed by the Ministers of Planning and Finance, and of Agriculture and Rural Development, and by representatives of the first eight donors providing support to PROAGRI through the CFFM. Others are being urged to follow suit and sign the MOU.

II. RATIONALE

8. Currently, IFAD support to PROAGRI is provided under its loan (432-MZ) for the FSLDP, with IFAD loan funds channelled through a traditional flow-of-funds mechanism utilizing a special account accessible by MADER. This memorandum highlights the need for changes to the loan which, it is considered, would significantly change the scope or characteristics of the loan originally approved by the Executive Board.

9. With the CFFM now established and, to a large extent, tested, it is argued that IFAD support should no longer be channelled through the special account but rather pass through the common mechanism. Adoption of the CFFM by IFAD is important for several reasons. First, it will support the Government in using its own mechanisms to carry out its own programme and, by reducing the overall financial management requirements within Government, it will actually strengthen the CFFM. Second, and more substantively, IFAD has an important role to play in sector-level dialogue with the Government, particularly in the development of policies and strategies explicitly targeting the rural poor; in the definition of planning and implementation approaches that ensure their full participation; and in focusing activities on their needs and priorities. Such a role is more effectively played as a full member of the CFFM, rather than outside it. Third, IFAD has considerably more experience than the majority of the donors in supporting Government-owned projects and programmes. Within CFFM that experience can increasingly be brought to bear in the dialogue that IFAD enjoys with the other members of the 'donor working group' (of those supporting PROAGRI), particularly in assisting the group to define how best to support MADER and PROAGRI implementation. Finally, with the CFFM now tested, the Government is keen for IFAD to enter it. The Government recognizes IFAD as an important development partner and would consider the Fund's entry as being flexible and responsive to its priorities. Entry would also enhance IFAD's reputation accordingly, with important longer-term benefits.

10. PROAGRI comprises a total of eight components. Given the overall objectives of FSLDP (see paragraph 1), it is not proposed that IFAD loan resources should be made available for expenditures under all eight. Instead, funding would be attributed² to expenditures under four of the components (livestock, extension, research and institutional strengthening) that contribute directly or indirectly to the objectives of FSLDP, for expenditures incurred at both the central and provincial (and sub-provincial) levels. Such an arrangement is considered sufficiently open-ended to avoid the risk of constraining Government in the allocation of external resources under PROAGRI, yet sufficiently focused to provide IFAD with a basis upon which to engage with MADER on issues of sub-sectoral policy, strategy and implementation. Financial reporting from Government on expenditures incurred with funds passing through the CFFM would be on the basis of components, sub-components and activities (although not on the basis of categories of expenditure, as at present), which would facilitate supervision and policy and programmatic dialogue.

² The term attribution, rather than earmarking, is used in recognition of the fact that IFAD will not be able to trace its individual disbursements through the system but rather that it will attribute its disbursements to corresponding expenditures made in the component areas defined.



11. While the majority of the remaining loan funds under FSLDP would pass through the CFFM (in a single category of expenditure), a proportion would remain outside, under two categories of expenditure. First, technical assistance (TA), consultancies and training. A number of TA contracts are ongoing under the FSLDP loan: some of these contracts are due to continue to 2004 and it will be administratively simpler to maintain them outside the CFFM. In addition, maintaining this budget outside the CFFM will give both MADER and IFAD more flexibility in their use than would be the case within it, and will give IFAD an opportunity for a more immediate and bilateral dialogue than is possible within the CFFM. Second, an allocation would be retained as a research fund, to be used to support the Competitive Agricultural Research Grant Office (CARGO)³. Since a proportion of the loan funds would remain outside the CFFM, there would need for the FSLDP special account to be retained, albeit at a substantially reduced level, to reflect the fact that it would be used to finance expenditures from these categories only.

12. Entry into the CFFM will affect somewhat the role played by IFAD's cooperating institution for this loan (United Nations Office for Project Services (UNOPS)). The procurement procedures associated with the CFFM envisage prior review of major procurement decisions, similar to those currently exercised by cooperating institutions on IFAD's behalf, and foresee a single entity being charged to perform that role for all procurement financed from the resources passing through the CFFM. The World Bank is currently performing that role, but it is expected that it will shortly be contracted out to a private-sector consultancy firm. UNOPS will be expected to sub-contract or delegate to the firm the carrying out of such procurement review. However, it will retain responsibility for conducting a procurement review of expenditures financed under the categories remaining outside the CFFM. In addition, while the nature of the supervision function would change slightly to take on a broader, sectoral perspective, there will continue to be need for UNOPS to provide regular support to MADER in its development of policy and strategies for the livestock subsector and its management and/or delivery of targeted, prioritized public services.

13. It is proposed that IFAD enter the CFFM as of 1 January 2002, at the beginning of Mozambique's financial year. Prior to entry, the following steps are envisaged: (i) signature by IFAD of the MOU; (ii) amendment of the loan agreement and signature by both parties; and (iii) overseeing the closure of most of the existing FSLFP accounts and settling commitments outstanding at the end of 2001.

III. RECOMMENDATION

14. In view of the foregoing, it is recommended that the Executive Board authorize the President to: (i) channel a part of the available balance of the resources under the FSLDP loan through the PROAGRI common flow of funds mechanism; (ii) conclude and sign the PROAGRI memorandum of understanding on behalf of IFAD; and (iii) amend the FSLDP loan agreement to reflect the changed disbursement and procurement procedures and likely broadening of activities financed.

³ Contributions to CARGO are outside PROAGRI, as CARGO is considered as being a financier of PROAGRI activities rather than as expenditure under PROAGRI.