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Enabling the rural poor
to overcome poverty

President's memorandum

Republic of Mozambique

Agricultural Support Programme (Loan No. 690-MZ)

Fiduciary arrangements for the sector- wide approach for agriculture

Executive Board — Eighty-ninth Session
Rome, 12-14 December 2006

For: **Approval**

Note to Executive Board Directors

This document is submitted for approval by the Executive Board.

To make the best use of time available at Executive Board sessions, Directors are invited to contact the following focal point with any technical questions about this document before the session:

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Recommendation for approval

The Executive Board is invited to approve the fiduciary arrangements for the Agricultural Support Programme, to be implemented under the overall framework of the second phase of the National Programme for Agricultural Development (ProAgri II), the agricultural sector-wide approach of the Government of Mozambique, as outlined in section II of this document.

President's memorandum

Agricultural Support Programme (Loan No. 690-MZ)

I. Background

1. At its eighty-seventh session, held in April 2006, the Executive Board approved loan 690-MZ to finance the Agricultural Support Programme. The programme will be implemented as part of the National Programme for Agricultural Development (ProAgri), the agricultural sector-wide approach (SWAp) under the Ministry of Agriculture (MINAG). Phase I of ProAgri terminated in 2005 and was followed by a second phase that is currently ongoing (ProAgri II, 2006/10). IFAD loan funding will be through the Common Flow-of-Funds Mechanism (CFFM), a basket-funding arrangement used by most of the donors that support the agricultural sector in Mozambique.
2. The IFAD Policy on Sector-wide Approaches for Agriculture and Rural Development acknowledges that SWAps are explicitly intended to promote the use of government systems for the financial management of programme resources, both to reduce the transaction costs by minimizing the use of separate financier requirements and to contribute to strengthening government procurement and financial management capacity. Prior to engaging in such arrangements, however, IFAD needs to satisfy itself that the main elements of the fiduciary arrangements for the management of the SWAp are in place, in particular for (a) planning and budgeting, (b) disbursement of funds, (c) accounting and audits, and (d) procurement.
3. The fiduciary arrangements for ProAgri II are defined in a recently finalized memorandum of understanding between the Government and the partners contributing to the CFFM (including IFAD) that is to be signed before the end of November 2006. These arrangements are largely based on those for ProAgri I and reflect improvements drawn from lessons learned during the implementation of the first phase. IFAD, together with the World Bank, was among the donors contributing to ProAgri I through the CFFM, thus endorsing the existing fiduciary arrangements.
4. As the memorandum of understanding was still being drafted at the time of loan approval, the report and recommendation of the President specified that, in conformity with IFAD policy, a document describing these fiduciary arrangements would be presented to the Executive Board for approval after the final version of the memorandum of understanding had been prepared.

II. Description of the fiduciary arrangements for ProAgri II

Planning and budgeting

5. ProAgri II's internal planning and budgeting is based on the rigorous and increasingly decentralized process introduced in MINAG under ProAgri I. Annual workplans and budgets (AWP/Bs) are prepared through a bottom-up approach – from the provincial to the central level – on the basis of a strategic plan agreed among the different layers and components, which sets the priorities for the ministry's activities in the following year. Once the strategic plan is approved, the District Directorates of Agriculture (DDAs) start the consultation process at the decentralized level with local communities, grass-roots organizations and other relevant stakeholders and partners, to prepare indicative plans of activities that are then consolidated by the Provincial Directorates of Agriculture in a provincial AWP/B, with the involvement of all the DDAs and the provincial departments. The provincial AWP/Bs are then transmitted to the central level for consolidation with the plans of the various components at the central level, before being presented to the MINAG Advisory Council for final approval.

6. The approved AWP/Bs constitute the basis for commitments of funds by the different sources of financing for ProAgri II, including external investment (partners contributing through the CFFM) and the general State budget, as well as for actual execution. Quarterly workplans and budgets as well as quarterly cash-flow plans are also elaborated to guide the actual execution of activities. Consultations between MINAG and the signatory partners are envisaged throughout the preparation and approval of the AWP/Bs, starting with the ProAgri Technical Meeting,¹ to be held in March of each year, as a broad forum for discussion of the strategic priorities for the following year; continuing with a formal meeting in July at which MINAG is to present the draft AWP/B to the signatory partners for discussion before submitting it to the Ministry of Planning and Development; and ending in August/September with the presentation to the partners of the final version of the AWP/B during the preparation of the agriculture mid-year review.² Continuous dialogue and feedback between MINAG and the partners during this process will be assured by the monthly meetings of the ProAgri Working Group.³

Disbursement of funds

7. Disbursements by IFAD will be done quarterly in advance for eligible expenditures under the approved AWP/B for the following quarter and the related forecasted cash-flow requirements. The amount and timing of disbursements from IFAD, as from all other signatory partners to the memorandum of understanding, will be documented in a disbursement plan, agreed at the Policy Dialogue Forum⁴ before the start of the fiscal year.
8. Disbursements will be made against specific withdrawal applications prepared and submitted to IFAD by MINAG through the Ministry of Finance, accompanied by the quarterly financial management report (FMR) corresponding to the quarter immediately preceding the quarter in which the request is submitted. For withdrawal applications relating to third quarters in the second and subsequent years of implementation, annual reports will also be submitted to allow IFAD to record its share of apportionment and to make appropriate adjustments prior to further replenishment.
9. Because FMRs and annual reports will serve as triggers for quarterly disbursements by IFAD, it is MINAG's responsibility to ensure the timely flow of funds during the implementation period by delivering them respectively within two and five months after the end of the relevant financial period. Failure to do so may result in suspension of disbursements by IFAD.
10. The funds will be transferred from IFAD to the ProAgri foreign exchange account, from which they will be deposited in the ProAgri local currency account held by the Ministry of Finance at the Bank of Mozambique, and then subsequently transferred to the Single Treasury Account.

Accounting and audits

11. Quarterly FMRs, prepared by the MINAG Directorate of Administration and Finance, constitute the basis of the ProAgri II financial reporting system. They cover planned and actual expenditures for the period as well as cumulatively for the year, disaggregated by source of funds, namely contributions by signatory partners through the CFFM (external investment) and contributions from the general State

¹ This meeting will bring together a broad range of stakeholders – including delegates from provinces and districts and representatives of the private sector and civil society – to discuss ProAgri/MINAG performance during the preceding year and outline planning aspects for the following year.

² Agriculture joint review/mid-year review processes are established to produce the agriculture sector input for the direct budget support joint review/mid-year review.

³ This is the main platform for dialogue between the Government and partners concerning operational matters in ProAgri II, including discussions on AWP/Bs and their execution, and on audit and financial management/reporting issues.

⁴ This is the principal forum for dialogue on policy and strategic direction for ProAgri II. It meets quarterly and is chaired by the Minister, Vice-Minister or Permanent Secretary of MINAG. The ProAgri Working Group will operate directly under its jurisdiction.

budget. Expenditures are classified and analysed by (a) component, subcomponent, subsector and programme; (b) category of expenditure, according to the main government budget classification; and (c) level (central, provincial and district). FMRs will be shared with the ProAgri Working Group partners within the two months following the end of each quarter.

12. The information contained in the FMRs is generated through Arco-Iris, a tailor-made software package for integrated financial management at MINAG. ProAgri statements of expenditure are consolidated each month into Arco-Iris at the provincial level by the provincial directorates and then transmitted to the MINAG Directorate of Administration and Finance, which consolidates them with those from different directorates and institutions at the national level.
13. The Financial Management Committee (FMC), comprising senior appointees from the Ministry of Planning and Development, the Ministry of Finance and MINAG, has overall responsibility for financial management of the ProAgri budget, including (a) review and approval of FMRs before their distribution to the partners, (b) monitoring of budget execution and deviations from plan, (c) adjustment of budgetary allocations and use of funds, and (d) consolidated financial reporting on ProAgri II implementation.
14. In addition to the statutory audit requirements that apply to MINAG as a government ministry, an independent auditor will be appointed by MINAG, following internationally accepted standards, under terms and conditions acceptable to the signatory partners, in order to carry out annual audits of the MINAG accounts. The audits will also cover the ProAgri foreign exchange and local currency accounts. The Inspectorate-General of Finance (IGF) will be involved in the drafting of the terms of reference for the audit services. The audit report will be submitted to the partners not later than six months after the end of the fiscal year. No independent auditor will be eligible to audit annual accounts for more than two consecutive years.
15. All findings and recommendations of both the external independent audits and the IGF audits will form the basis for necessary corrective measures. The FMC will be responsible for assessing the reports received from internal and external auditors and for following up on audit queries, management letters and recommendations. The FMC will inform the signatory partners of assessments and follow-up decisions by circulating the minutes of FMC meetings.
16. During the five years of implementation of ProAgri II, at least one performance – or value-for-money – audit will be carried out on a subset of total expenditures, the scope of which will be agreed between the parties and the IGF.

Procurement

17. The funds channelled through the CFFM will be used in accordance with national budget execution rules. Accordingly, the ProAgri partners agreed to replace the procurement manual used under ProAgri I with the standard government procurement rules, as set up by the Government following approval of the new public-sector procurement regulations set forth in the Council of Ministers' Decree 54/2005 of 13 December 2005.
18. The new procurement procedures are in line with international current practice and broadly consistent with IFAD's procurement guidelines, apart from the following exceptions:
 - The procurement plan prepared concurrently with the AWP/B and specifying the goods and services to be procured as well as the method of procurement is for a period of 12 months instead of 18 months.

- The procurement review (ex ante and ex post) is the responsibility of the Procurement Oversight Unit created within the Ministry of Finance⁵ and not of an external agency, such as IFAD and/or its cooperating institution as in a standard IFAD-funded programme, or such as the World Bank in ProAgri I.
 - The preferential margin for national bidders is 10 per cent for civil works, instead of 7.5 per cent. Moreover, tenders could be restricted to national bidders below a threshold equivalent to about US\$200,000 for civil works and US\$100,000 for goods and services.
 - Tenders open to international bidders are not advertised in *UN Development Business* or in the Development Gateway's dgMarket, but in the Official Gazette and on the Government's website.
 - The official language to be used in all bid-related documents is Portuguese.
19. Procurement audits according to internationally acceptable quality standards are also carried out by independent consulting companies, on the basis of schedules and terms of reference agreed between the Government and ProAgri partners.
20. The above procedures have been accepted by all the donors providing support under SWAp arrangements and by those providing direct budget support, including the World Bank.⁶

World Bank endorsement of the fiduciary arrangements

21. The World Bank is providing general budget support to the Government of Mozambique. This is taken to imply the endorsement by the World Bank of the fiduciary arrangements established for ProAgri II as per the IFAD policy on SWAps (annex III – Executive Board clarification and approval).

⁵ The unit's responsibilities are the coordination and supervision of all activities related to public contracting; management of the national centralized information system; and capacity-building activities for public institutions on issues related to public contracting.

⁶ Two issues raised within the working group on procurement reform are being discussed with the Government: (i) use of a second language (English, French or Spanish) for procurement under international competitive bidding; and (ii) consideration of the origin of the goods, instead of the nationality of the bidder, as the criterion for preferential margin in the procurement of goods.

