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Mozambique

Final Report – Volume One
(2011 methodology)

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Final Report – Volume One
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Andrew Lawson, Conceição Leão Baptista, Alessandro Pisani,
Hernán Pflucker and Gonzalo Contreras

AECOM International Development Europe (Spain)

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List of Abbreviations

AR	*Assembleia da República* Parliament
AT	*Autoridade Tributaria de Moçambique* Tax Authority of Mozambique
BAC	*Balcões de Atendimento ao Contribuinte* Taxpayer Customer Service Counters
CEDSIF	*Centro de Desenvolvimento de Sistemas de Informação de Finanças* Centre for Development of Financial Management Information Systems
CFM	*Caminhos de Ferro de Moçambique* Mozambique Railways
CFMP	*Cenário Fiscal de Médio Prazo* Medium-Term Fiscal Framework
CGE	*Conta Geral do Estado* General State Accounts
CdM	Council of Ministers Conselho dos Ministros
CPO	*Comissão de Plano e Orçamento (da Assembleia da República)* Plan and Budget Committee (of Parliament)
CS-DRMS	Commonwealth Secretariat – Debt Recording & Management System
CTA	Confederação Técnica das Associações Technical Confederation of Associations (Forum of Private Sector Organisations)
CUT	*Conta Única do Tesouro* Single Treasury Account
DAF	*Direcção de Administração e Finanças* Directorate for Administration and Finance
DGDev	Directorate General for Development of the European Union
DNCP	*Direcção Nacional de Contabilidade Publica* National Directorate of Public Accounting
DNIC	*Direcção Nacional de Investimento e Cooperação* National Directorate of Investment and Cooperation
DNO	*Direcção Nacional do Orçamento* National Directorate of Budget
DNPE	*Direcção Nacional do Património do Estado* National Directorate of State Patrimony
DNT	*Direcção Nacional do Tesouro* National Directorate of Treasury
DPPF	*Direcção Provincial de Plano e Finanças* Provincial Directorate of Planning and Finance
FCA	*Fundo de Compensação Autárquica* Autonomous Municipalities' Compensation Fund
FIIL	*Fundo de Investimento de Iniciativa Local* Fund for Local Investment Initiatives
FMI	Fundo Monetário Internacional International Monetary Fund (IMF)
GoM	Government of Mozambique
IGEPE	*Instituto de Gestão das Participações do Estado* Institute for the Management of State Shareholdings

IGF	*Inspeção Geral de Finanças* General Inspectorate of Finances
IOF	*Inquérito ao Orçamento dos agregados familiares* Household Survey
INSS	*Instituto Nacional de Segurança Social* National Institute for Social Security
IRPC	*Imposto sobre o Rendimento das Pessoas Colectivas* Corporate Income Tax
IRPS	*Imposto sobre o Rendimento das Pessoas Singulares* Personal Income Tax
ISPC	*Imposto Simplificado para Pequenos Contribuintes* Simplified Tax for Small Taxpayers
IVA	*Imposto sobre o Valor Acrescentado* Value Added Tax
INIR	*Instituto Nacional de Irrigação* National Irrigation Institute
LNG	Liquefied natural gas
MAEFP	*Ministério de Administração Estatal e Função Pública* Ministry of State Administration and Civil Service
MAF	*Manual de Administração Financeira de Procedimentos Contabilísticos* Financial Administration Manual of accounting procedures
MDA	Ministreis, Departments and Agencies
MEDH	*Ministério de Educação e Desenvolvimento Humano* Ministry of Education and Human Resource Development
MEF	*Ministério de Economia e Finanças* Ministry of Economy and Finance
MEO	*Modulo de Elaboração do Orçamento (do e-SISTAFE)* Budget Formulation Module of *(e-SISTAFE)*
MEX	*Modulo de Execução Orçamental (do e-SISTAFE)* Budget Execution Module (of e-SISTAFE)
MOPH	*Ministério de Obras Públicas e Habitação* Ministry of Public Works and Housing
MPD	*Ministério de Planificação e Desenvolvimento* Ministry of Planning and Development
NUIT	*Numero Único de Identificação Tributaria* Unique Tax Identification Number
OE	*Orçamento do Estado* State Budget
OSC	*Organização da Sociedade Civil* Civil Society Organization
PAPs	Programme Aid Partners
PEFA	Public Expenditure & Financial Accountability
PER	Public Expenditure Review *Revisão das Despesas Publicas*
PERPU	*Programa de Redução da Pobreza Urbana* Programme for Reduction of Urban Poverty
PES	*Plano Económico Social* Economic & Social Plan (anual)
PFM	Public Finance Management *Gestão de finanças publicas*

PII	*Programa Integrado de Investimentos* Integrated Investment Programme
PQG	*Plano Quinquenal do Governo* Government Five-Year Plan
REO	*Relatório de Execução Orçamental (trimestral)* Quarterly Budget Execution Report
SECO	Swiss State Secretariat for Economic Affairs
SICR	*Sistema Interino de Cobrança de Receita* Interim System for Tax Collection (IT system)
SISTAFE	*Sistema de Administração Financeira do Estado* State Financial Management System
TA	*Tribunal Administrativo* Administrative Court (Supreme Audit Institution)
UFSA	*Unidade Funcional de Supervisão das Aquisições* Unit for Supervision of Procurement
UGB	*Unidade Gestora Beneficiária (do Orçamento)* Budget Holder (Budget Management Unit)
UGC	*Unidade de Grandes Contribuintes* Large Taxpayer Unit
UGE	*Unidade Gestora Executora (do Orçamento)* Budget Execution Unit
UGEA	*Unidade Gestora Executora das Aquisições* Managing and Executing Unit for Procurement Processes

Summary Assessment

At the request of the Government of Mozambique, an independent team undertook an external assessment of the central government's Public Finance Management (PFM) system based on the Public Expenditure and Financial Accountability (PEFA) methodology[1]. The assessment was undertaken in close collaboration with the Ministry of Economy & Finance (MEF), with the specific support of the National Directorate of the Treasury, (DNT) and the *Centro de Desenvolvimento de Sistemas de Informação de Finanças* (CEDSIF), the institution responsible for coordination of PFM reforms in Mozambique. These two directorates together with representatives of the Delegation of the European Union and the Swedish Embassy comprised the Management Group for the assessment, with the latter agencies also providing financial support. The Report was quality assured in line with the PEFA Check process, established by the PEFA Secretariat.

The assessment examines progress since the PEFA assessment of 2010 and provides a new baseline for monitoring future progress in PFM reform and for supporting the authorities in refining, where necessary, the current PFM reform strategy. The report is issued as a final draft. It has been subject to final comments under the "PEFA check" quality assurance process, in which it was reviewed by the Mozambican Authorities, the PEFA Secretariat, the Directorate General for Development of the European Union (DGDev) and the Swiss State Secretariat for Economic Affairs (SECO). Following the receipt and incorporation by the assessment team of the resulting comments, a Final Report was issued in December 2015.

The assessment has involved the application of the 2011 PEFA methodology and the 2015 "testing version" of the new PEFA methodology. The former has provided the basis for a comparison with the results of the 2010 assessment, while the latter is expected to provide a base-line against which future assessments can be compared once the new PEFA methodology is formally established from April 2016 onwards. The main text of this report is concerned with the results of the application of the 2011 methodology, while a companion volume presents the results of the application of the 2015 "testing version" of the PEFA methodology.

The comparison with the 2010 assessment is to a degree affected by the changes which have been subsequently introduced to the PEFA methodology. The methodology for three of the thirty-one indicators (PI-2, 3 and 19) was revised in 2011 and thus these three indicators are not comparable. In addition, new guidance material, in the form of the "Field Guide", has been issued since 2010, which has increased the rigour with which the methodology must be applied. As a consequence, three indicators (PI-4, 14 and 20) have scored worse in 2015 than in 2010, despite the fact that practices in these three areas have almost certainly not deteriorated : the assessment criteria have simply become more demanding. Readers of this report are therefore encouraged to take into account the narrative assessment as well as the scoring for each indicator and to avoid a mechanistic comparison of indicator scores from 2010 and 2015.

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[1] The assessment mission team, consisting of Andrew Lawson (Team Leader), Conceição Leão Baptista, Gonzalo Contreras, Alessandro Pisani, Hernán Pflucker and Thomas Selemane, completed field work in Maputo, Matola and Boane over 15th, June – 2nd, July, 2015, following a preliminary mission by Andrew Lawson, Alessandro Pisani and Berta Gregório to collect data and undertake a 2-day PEFA training course over 18th – 23rd , May 2015.

Main findings

The assessment shows that Mozambique has succeeded in consolidating the major improvements in the PFM system recorded in 2010, while continuing to improve performance – most particularly in the areas of budget execution, accounting, reporting and internal & external audit. The coverage of the e-SISTAFE system has been substantially extended, while the number and range of internal and external audits undertaken has also increased. These improvements, which have been demanding of financial, human and managerial resources, were made possible by the strong political commitment to the PFM reform strategy and the determined implementation of reforms. Unfortunately, they are not, as yet, fully reflected in gains in PEFA scores, although they are a necessary condition for the future gains, which might elevate the quality of the Mozambican PFM system to one fully consistent with international good practice.

The scores against the PEFA benchmarks of the 2011 methodology show a consolidation of the gains identified in 2010. (Figure 1.) The high scores achieved in 2010 on indicators relating to revenue administration, cash and debt management, and accounts reconciliation have been repeated. Overall, 15 of the 28 indicators relating directly to PFM performance have shown no change, whilst the deteriorating scores against 5 indicators have been counterbalanced by improvements in 5 others. (Table A.) On the other hand, as noted above, in three cases (PI-4, 14 and 20) practices have almost certainly not deteriorated: if the 2010 assessment had had the benefit of the PEFA Fieldguide for the 2011 methodology, these indicators would have had scores in 2010 at the same level or below those attributed in 2015. Overall, the 2015 assessment shows that 15 indicators continue to be ranked as "A"s or "B"s, with 8 at "C" or "C+" and 5 at "D" or "D+". (Table B[2].)

Table A: Overview of Changes in PEFA Scores, between 2010 and 2015

	N.º of Indicators
Not comparable	3
Improved Scores	5
Reduced Scores	2
No Change	15
No change if applying 2011 *field guide* to 2010 scores	3
Total	28

Table B: PEFA rankings of 28 PFM indicators, 2010 & 2015

	2010	2015
A	6	5
B or B+	10	10
C or C+	9	8
D or D+	3	5
Total	28	28

[2] Table B needs to be read carefully. Even though the team has assessed a number of ratings in the 2010 assessment as being non compliant with the 2011 field guide, it is required to show the original ratings rather than generating retrospectively revised ratings. Thus, a simple comparison of indicators, without reference to the narrative explanations for each indicator may be misleading. The key message from Table B is that the advances recorded in 2010 have been consolidated.

Improvements have been recorded in accounting and reporting processes, as well as in Internal Audit. In particular, the 2015 PEFA assessment records higher scores for the coverage of reporting of government operations (PI-7), the monitoring of fiscal risk (PI-9), the coverage and quality of Internal Audit reports from IGF, as well as in the effectiveness of follow-up to these reports (PI-21) and in the quality of in-year reporting (PI-24) and of end-of-year accounts (PI-25).

The assessment points to a deterioration in the comprehensiveness of information included in budget documentation (PI-6) and in the effectiveness of collection of tax arrears (PI-15). The assessment team have concluded that the lower scores against these indicators represent a genuine drop in performance, rather than an apparent deterioration arising from changes in the PEFA methodology or in its mode of application.

There are also areas where deficiencies have remained since the 2010 assessment. In particular, procurement practices (PI-19) continue to lag behind international good practice, despite the improvements achieved. The quality of medium term planning and budgeting (PI-12) – the use of the CFMP and its links to the annual plan (PES) and Budget (OE) – is another continuing area of concern, where weaknesses appear to be having knock-on effects on the overall credibility of the budget at the institutional level (PI-2).

The fact that there continue to be deficiencies is not surprising given the institutional and human resource constraints faced by Mozambique and the fact that its PFM reforms are only some 12 years old. However, these deficiencies affect areas which are essential to the effective performance of the Mozambican public sector. Some adjustments in the focus of current PFM reforms may be needed in order to correct these deficiencies and ensure that sustainable improvements across the full PFM cycle are attained.

Performance against the 7 Performance Areas defined in the PEFA

- Budget credibility (PI-1 to 4) remains to be fully established – particularly at the institutional level, although to date arrears have been controlled, and the Authorities have coped reasonably effectively with the uncertainties in the timing and value of receipts of capital gains taxes from the re-sale of LNG concessions. With the exception of the 2013 fiscal year, deviations between budgeted revenues and expenditures and their actual levels have been kept sufficiently controlled to record "A" scores against PI-1 and PI-3. There have, however, been continuous problems in controlling the discrepancies between budgeted and actual expenditures at the institutional level, with "D" scores being recorded for PI-2 as a consequence. This suggests either that the budget proposals prepared by the institutions have significant errors which are not corrected in the process of scrutiny by MEF or that unplanned expenditure activities (such as new projects) are regularly introduced during the budget execution process. These practices undermine the predictability of resource allocations at the institutional level, with negative effects for the planning of procurement and other aspects of service delivery. There are also indications that some institutions delay liquidation and/ or payment for spending commitments incurred (such as overtime payments and suppliers' bills) in order to cover the deficit between commitments and available budgets. Although our estimates suggest that the accumulated value of payment arrears remains low, there are weaknesses in the monitoring of payment arrears, which mean that these practices are not as well controlled as they should be.

- Comprehensiveness and transparency (PI-5 to 10) have seen modest improvements since the last PEFA assessment but more could be done to build upon past gains. Unchanged scores were recorded for the quality of the budget classification system (PI-5) and for public access to information (PI-10). Thus, in these two areas, "B" scores have been recorded since the 2007 PEFA assessment, without further gains being attained. Consolidating the use of the functional budget classification and of programme classifiers will require further guidance, training and monitoring of the way these classifiers are used during the budget execution process but should be an attainable objective in the short to medium term. Systematic publication of all tender launches and contract awards in the *Portal de Aquisições* is the one additional measure that would be required to achieve an "A" score on public access to information. Thus, this would be a "quick win", which would also have positive effects on the quality of procurement. Surprisingly, the comprehensiveness of information included in budget documentation (PI-6) has declined – a consequence, we believe, of attempts to reduce the bulkiness of the information provided on the Executive's Budget Proposal, which have inadvertently reduced the ability of Assembly Members to compare budget proposals with past and current levels of spending. Again, corrective measures could be introduced here relatively quickly, generating a "quick win" in transparency. On the positive side, improvements have been achieved both in the control and reporting of extra-budget operations by central government institutions (PI-7) and in the monitoring of fiscal risks generated by Public Enterprises and other public sector entities (PI-9). These efforts need to be continued, ideally through the development of a regular and comprehensive, <u>consolidated annual report</u> on fiscal risk.

- Progress in improving the quality of policy-based budgeting has been limited, with no clear sign of building upon gains achieved in earlier years (PI-11 &12). Mozambique has always had a well-ordered budget preparation process, with a clear, well-structured budget calendar and clear processes for preparation and negotiation of budget proposals. (PI-11) However, the scoring against this indicator has been undermined by the fact that in the fiscal year following elections, the approval of the Budget by the Legislature is delayed until after the start of the fiscal year. As a result, there have been "B+" scores (rather than "A") for PI-11 in 2007, 2010 and 2015. More serious is the fact that the quality of multi-year planning and budgeting has been assessed as unchanged ("C+") since 2007. The fact that a medium term fiscal framework (CFMP) has existed throughout this period is a positive factor and it is also notable that it is backed up by an annual Debt Sustainability Analysis for domestic and external debt. However, there have been persistent weaknesses in the quality of macroeconomic projections, in the presentation and discussion process for those projections, in the links between the aggregate CFMP and the medium term sectoral strategies, and in the methods of incorporation of the future recurrent costs of investment projects into the CFMP. Developing a robust CFMP to serve as a genuine disciplining framework for medium term planning and budgeting would be a challenging endeavour. Yet, the gains in the effectiveness of public spending would be substantial: Mozambique's PFM systems and the quality of its human resources are now at a level when that challenge can and should be properly addressed.

- Mozambique has made steady advances over several years with regard to predictability and control in Budget execution (PI-13 to 21), notwithstanding the continuing weaknesses in procurement and in certain aspects of payroll control. Of the nine indicators assessed in this area, 4 are scored as "A" or "B+", while 4 of the 5 indicators scoring lower than this have deficiencies in specific dimensions which could be corrected in the short term. The exception is the procurement indicator, where more substantial and wide-ranging systems improvements will be needed to generate improvements in the PEFA score. In particular, there needs to be tighter monitoring of the use of non-competitive procurement methods, which represented 52% (by value) of the contracts awarded in 2014, as well as systematic publication of each of the stages of procurement. There have been significant improvements in payroll management with the simultaneous establishment of the *e-FOLHA* payroll system and the *e-CAF* personnel system. However, the coverage of e-CAF is not complete and the manual control systems, which have to be applied for the salary payments for staff outside of this system are not yet sufficient to ensure full integrity of data. In the revenue area, improvements have been recorded in the transparency of taxpayer obligations and liabilities, in the effectiveness of registration and tax assessment, and in most aspects of the collection of tax payments (PI-15). However, the rate of collection of tax arrears is poor - 18% in 2013 and 11% in 2014. Although the value of outstanding arrears remains relatively low (3 % of the total of revenues, excluding capital gains tax), these collection rates are well below international best practice: a concerted effort to clear outstanding arrears would allow Mozambique to reach an "A" or B" score on this indicator too.

- Accounting and financial reporting (PI-22 to 25) have shown improvements in recent years through improving the coverage of reporting and the definition (and application) of accounting standards. Further improvements to the coverage of financial reporting would bring "A" scores in future, notably through coverage of each stage of the expenditure process (commitments, liquidations and payments) within the (in-year) quarterly expenditure reports (PI-24) and through more comprehensive coverage of revenue in end-of-year accounts (PI-25). One area where there have not been improvements is with regard to the reporting of resources received by service delivery units (PI-23). The problem here is that with the thousands of primary schools and aid posts providing government services, it is simply not feasible for budget control and reporting to be exercised at this level – a problem common to many governments around the world.

- Despite improvements both in the quality and coverage of audits, the effectiveness of external scrutiny and audit (PI-26 to 28) is being held back by shortcomings in the follow-up of audit reports. Significant efforts have been dedicated to strengthening the capability of the *Tribunal Administrativo* (TA). These efforts are beginning to bear fruit in increasing numbers of audit reports, a wider audit coverage of public institutions, and a wider range of different types of audits (performance audits, etc.). However, the quality of follow-up of audit recommendations is not systematic, relying as it does on repeat audits which are not all frequent or regular. (See PI-26). Moreover, the review and follow up by the Legislature on the TA's opinion on the public accounts (the CGE) remains limited in scope, involving audiences only with the Ministry of Economy and Finance (MEF) and not with sectoral or other public institutions. (PI-28). The quality of the Legislature's scrutiny of the Executive's Budget Proposal has always been relatively good (PI-27). Including analysis of the CFMP alongside the Budget Proposal would improve scoring against this indicator, as would changes to the procedures for review of Budget Proposals in post-election years. However, the primary reason for a “C+” score relates to the unusually high level of discretion accorded to the Executive in making changes to the Budget during the execution process, with prior authorisation of the Legislature being sought only where increases in aggregate expenditure are required.

- Donor practices (D-1 to 3) have remained essentially unimproved since 2007. The predictability of Budget Support disbursements remains relatively good (D-1) but performance with regard to the provision of information on the annual budgets and expenditures of externally financed projects (D-2) and on the proportion of aid that is managed through the use of national procedures (D-3) has been consistently poor. The Government has consistently emphasised its desire for all external funding to pass through the Single Treasury Account (CUT) but it is clear that many Development Partners are unwilling to do this. In the short to medium term, more progress is likely to be made through a focus on reporting planned expenditures in the Budget (OE) and submitting statements of actual project expenditures to DNCP for inclusion in end-of-year accounts (CGE). Reporting on externally financed projects within the Budget and the public accounts is the first step to bringing aid on budget, and poses no fiduciary risks at all to the use of external resources.

Consequences of the PEFA findings for the achievement of PFM objectives

Mozambique’s PFM system has been robust enough to ensure fiscal discipline for most of the past decade. This has been due primarily to good budget monitoring and control of aggregate expenditure, rather than to good budget planning. Although the quality of revenue forecasting has improved in recent years, it remains the case that the maintenance of the consistency between planned and actual expenditures at the aggregate level has been achieved through frequent and significant changes during the execution process to the budgets of individual institutions. As a result, predictability of budgets at the institutional level remains a major problem, which almost certainly has negative knock-on effects on the planning of expenditures and the management of procurement and recruitment processes, and thus on the value for money achieved in the delivery of public services.

With regard to the allocation of resources to strategic priorities, the Government has been able to ensure that over 60% of budgetary resources are allocated consistently to designated priority sectors. However, at the more detailed level, it seems clear that part of the reason for the frequent alteration of institutional budgets is due to the inclusion during the budget year of new projects and expenditure initiatives. A more complete identification of political priorities in advance of the start of the fiscal year would allow these priorities to be properly budgeted from the outset.

The improvements achieved in cash planning and management as well in internal control and internal audit should have positive effects on the promotion of operational efficiency (value for money) in the delivery of government services. However, as we have noted above these effects have been, to a degree, undermined by the poor predictability of budgets at the institutional level.

Priorities for 2015 and beyond

Improvements in planning and budgeting must be the priority for the future in order to complement the important advances made in the quality of budget execution and control. The CFMP should be at the centre of this process, focusing first on the development of a credible fiscal strategy, and then proceeding to improved medium term budgeting of projects and programmes. In parallel, it is essential to consolidate and continue the advances in budget execution systems achieved through the expanded coverage and increased functionality of the e-SISTAFE system, while continuing to improve the monitoring of fiscal risks, as well as strengthening the competitiveness and the transparency of the procurement system.

Figure 1: Summary of the PEFA 2015 Assessment in comparison with PEFA 2010

	Indicator Description	Score 2010	Score 2015	Change
	PFM OUTTURNS: Credibility of the Budget			
PI-1	*Aggregate expenditure outturn compared with original approved budget*	*A*	*A*	➔
PI-2	*Composition of expenditure outturn compared with original approved budget*	*D*	*D+*	*NC*
PI-3	*Aggregate revenue outturn compared with original approved budget*	*A*	*A*	*NC*
PI-4	*Stock and monitoring of expenditure payment arrears*	*B+*	*D+*	↓
	KEY CROSS CUTTING ISSUES: Comprehensiveness and Transparency			
PI-5	*Classification of the budget*	*B*	*B*	➔
PI-6	*Comprehensiveness of information included in budget documentation*	*A*	*C*	↓
PI-7	*Extent of unreported government operations*	*B*	*B+*	↑
PI-8	*Transparency of inter-governmental fiscal relations*	*B*	*B*	➔
PI-9	*Oversight of aggregate fiscal risk from other public sector entities*	*D+*	*C+*	↑
PI-10	*Public access to key fiscal information*	*B*	*B*	➔
	BUDGET CYCLE			
	C (i) Policy Based Budgeting			
PI-11	*Orderliness and participation in the annual budget process*	*B+*	*B+*	➔
PI-12	*Multi-year perspective in fiscal planning, expenditure policy, and budgeting*	*C+*	*C+*	➔
	C (ii) Predictability and Control in Budget Execution			
PI-13	*Transparency of taxpayer obligations and liabilities*	*A*	*A*	➔
PI-14	*Effectiveness of measures for taxpayer registration and tax assessment*	*A*	*B*	↓
PI-15	*Effectiveness in collection of tax payments*	*C+*	*D+*	↓
PI-16	*Predictability in the availability of funds for commitment of expenditures*	*C+*	*C+*	➔
PI-17	*Recording and management of cash balances, debt, and guarantees*	*A*	*A*	➔
PI-18	*Effectiveness of payroll controls*	*B*	*B*	➔
PI-19	*Competition, value for money, and controls in procurement*	*B*	*D+*	*NC*
PI-20	*Effectiveness of internal controls for non-salary*	*B+*	*C+*	↓

	Indicator Description	Score 2010	Score 2015	Change
	expenditure			
PI-21	*Effectiveness of internal audit*	*C+*	*B+*	↑
	C (iii) Accounting, Recording, and Reporting			
PI-22	*Timeliness and regularity of accounts reconciliation*	*B*	*B*	→
PI-23	*Availability of information on resources received by service delivery units*	*D*	*D*	→
PI-24	*Quality and timeliness of in-year budget reports*	*C+*	*B*	↑
PI-25	*Quality and timeliness of annual financial statements*	*C+*	*B+*	↑
	C (iv) External Scrutiny and Audit			
PI-26	*Scope, nature, and follow up of external audit*	*C+*	*C+*	→
PI-27	*Legislative scrutiny of the annual budget law*	*C+*	*C+*	→
PI-28	*Legislative scrutiny of external audit reports*	*C+*	*C+*	→
	DONOR PRACTICES			
D-1	*Predictability of direct budget support*	*A*	*B+*	↓
D-2	*Financial information provided by donors for budgeting and reporting on project and programme aid*	*D+*	*D+*	→
D-3	*Proportion of aid that is managed by use of national procedures*	*C*	*D*	↓

NOTE: NC – Not comparable (due to modifications in the methodology introduced in 2011.)

1. Introduction

1. This document is the Final Report of the 4th assessment of the Public Finance Management (PFM) system in Mozambique based on the PEFA methodology. The assessment has been carried out in Mozambique, during the period between May and October 2015 by a team of consultants from ACE consortium (Spain) and CESO Development Consultants (Portugal), in liaison with the Government of Mozambique (GoM) represented by the Ministry of Economy and Finance (MEF), with the specific support of the National Directorate of the Treasury, (DNT) and the *Centro de Desenvolvimento de Sistemas de Informação de Finanças* (CEDSIF), the institution responsible for coordination of PFM reforms in Mozambique. These two directorates together with representatives of the Delegation of the European Union and the Swedish Embassy comprised the Management Group for the assessment, with the latter agencies also providing financial support.

2. The Report was quality assured in line with the PEFA Check process, established by the PEFA Secretariat. The quality assurance process of the PEFA Check is described in Annex IV. The four quality reviewers were the PEFA secretariat, the Swiss State Secretariat for Economic Affairs (SECO), Directorate General for Development of the European Union (DGDev) and the Government of Mozambique (GoM). The Terms of Reference (ToRs) and two draft reports of the PEFA were reviewed by the four reviewers as described in annex. In addition, a public dissemination seminar took place on 02/11/2015 at which all relevant stakeholders participated, providing some additional inputs for the Evaluation Team.

3. The Government of Mozambique has already undertaken three public finance management (PFM) assessments using the PEFA methodology. The first was published in 2005 (for the 2002-2004 period); the second PEFA assessment (for 2004-2006) was concluded in 2008; and the third in 2010 (for 2007-2009). The three assessments applied the PEFA methodology introduced in June 2005, which was subject to minor updates in 2011. Since the Government will launch a new programming cycle in 2015, and five years have passed since the last evaluation, the GdM expressed its interest in undertaking the fourth PEFA assessment in 2015.

4. The overall purpose of this evaluation is to obtain an objective and independent diagnostic assessment of the progress made in the PFM area through the collection and analysis of data from the 2012-2014 fiscal cycles, applying the PEFA methodology. The PEFA Secretariat is conducting a thorough revision of the PEFA methodology, with a view to introducing a revised methodology in April 2016. In this context, the PEFA Secretariat recommends the application of both methodologies, the old and the new, as follows:

   - the current methodology (published in 2011 and currently in place), so as to provide continuity with the 3 previous assessments, and allow a direct comparison with the results of the 2010 assessment; and
   - the new PEFA methodology (published in 2015 in a preliminary “testing” version), with the aim of establishing a new baseline for comparison with future PEFA assessments.

5. Given this context, this assessment has two specific objectives, as follows:
   - To assess – in Volume One - the progress made in relation to the previous assessments published in 2008 and 2010 (ensuring a comparison of the 31 indicators of the existing methodology); and
   - To provide – in Volume Two - a performance baseline for the new methodology (PEFA 2015), establishing the current scores of the 30 indicators in the new methodology.

Figure 2: Map of Mozambique

2. Background of the Country

2.1. Economic Situation

6. Mozambique is a country in Southern Africa, with a population of 25.7 million inhabitants (INE) and a GDP per capita estimated at 649 USD (PES, 2015). The Country is a member of SADC and is bordered by the Indian Ocean to the East, Tanzania to the North, Malawi and Zambia to the North-West, Zimbabwe to the West and South Africa and Swaziland to the South-West. The following table provides a comparison of Mozambique and its bordering countries, based on a few key indicators.

Table 1: Key indicators of the country, comparative analysis

	Population (thousands)	Land area (thousands of km2)	Population density (pop. / km2)	GDP based on PPP valuation (USD million)	GDP per Capita (PPP valuation,	Annual real GDP growth (average over 2006-2014)
Malawi	16 829	118	142	13 755	817	6,3
Mozambique	26 473	799	33	29 757	1 124	7,3
South Africa	53 140	1 219	44	683 147	12 856	2,8
Swaziland	1 268	17	73	8 672	6 841	2,1
Tanzania	50 757	947	54	92 532	1 823	6,9
Zambia	15 021	753	20	61 786	4 113	7,8
Zimbabwe	14 599	391	37	26 877	1 841	2,4

Source: AfDB, *African Economic Outlook*, 2015

7. Since the last PEFA evaluation in 2010, the Mozambican economy has registered growth rates above 7% annually and is still one of the most rapidly growing economies worldwide, as depicted in Table 2.

Table 2: Evolution of selected macroeconomic indicators

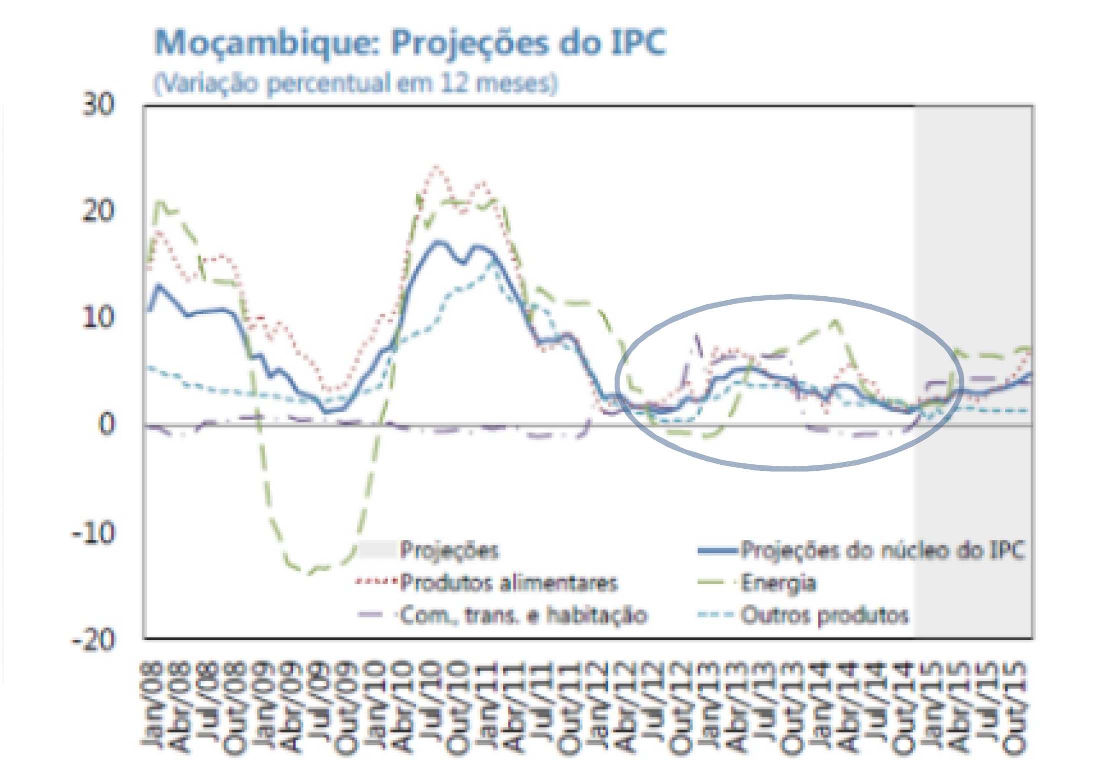
Indicator	Unit	2010	2011	2012	2013	2014
Gross domestic product constant prices	% change	**7,12**	**7,44**	**7,08**	**7,44**	**7,37**
Gross domestic product per capita, current prices	U.S. dollars	**437**	**539**	**590**	**605**	**630**
Total investment	% of GDP	**17,8**	**36,8**	**56,5**	**55,6**	**47,2**
Gross national savings	% of GDP	**7,1**	**13,7**	**14,2**	**15,6**	**12,4**
Inflation, average consumer prices	% change	**12,7**	**10,4**	**2,1**	**4,2**	**2,3**
General government gross debt	% of GDP	**41,8**	**37,5**	**41,1**	**46,9**	**55,4**
Current account balance	% of GDP	**-10,6**	**-23,1**	**-42,3**	**-40,0**	**-34,7**

Source: The World Economic Outlook (IMF) Database

8. This trend has been driven mainly by a good macroeconomic management, characterized by low levels of inflation (see Figure 2), significant levels of foreign direct investment (FDI), expansion of credit to the economy, stimulated by the Central Bank's monetary policy, and significant expansion of public expenditure (see section 2.2). This was enabled by good performance in the collection of tax revenues, and continuation of significant levels of external financing for development. Inflation levels have been kept very low, reaching their lowest

historical level in 2012 (just 2.7%), as a consequence of the exchange rate and monetary policies of the Bank of Mozambique, allowed with favourable international conditions (the appreciation of the metical resulting from with the lower price of oil).

Figure 3: Inflation trend



Source: IMF, PSI Review, Jan 2015

9. Despite the negative impact of the floods and politically driven military instability in the centre of the country, in the last three years, the real growth of gross domestic product (GDP) attained 7%, above the African and SADC average, as illustrated in Table 1.

10. The period under analysis was characterized by the beginning of major mining and petroleum exploration projects, after the discovery of vast reserves of coal in Tete province and offshore natural gas, in the Rovuma basin, which has attracted significant investments by large multinational companies, such as ENI and Vale do Rio Doce.

11. Thus, FDI levels have been among the highest in the world, with an average of about 33% of GDP per year between 2012-14, which was the highest level in sub-Saharan Africa in the same period.[3] Major flows of FDI in extractive industries have also significantly affected the balance of payments, with the large increase in capital goods imports related to the development of the mineral extraction projects, which led to an increase in the current balance of payments deficit of 11% of GDP in 2010 to 35% in 2014.

[3] Regional Economic Outlook data: Sub-Saharan Africa 2015 p93.

12. Despite projections indicating the beginning of the gas production before 2020, the exploitation projects have already started to take effect in the economy. In particular, the production of coal in Tete province has increased the natural resources share in GDP growth (with sector growth of 13.8% in 2014, - PES, 2014).

13. The need for large investments in infrastructure needed for the development of the extractive industry has also stimulated the growth of other economic sectors in recent years, especially the good performance of the financial services, construction, energy and transport sectors. This trend will continue in the coming years as the contribution of extractive industry in GDP increases.

14. Regarding the GDP composition, Mozambique has not been able to significantly change the economic structure, which continues to be dominated by agriculture (especially tobacco, sugar, cotton and wood). This sector represents approximately 30% of the composition of GDP and between 70-80% of employment, which has hindered efforts to reduce poverty.

15. The Agriculture sector has low levels of productivity, being essentially characterized by a subsistence production, or small scale, specially by households, and the limited use of fertiliser and technology. Other factors that have affected the sector are the lack of transport and storage infrastructure, affecting the flow of products, coupled with investment levels that are still far below what is necessary to boost the growth of the sector and exports. As a result, Mozambique continues to be highly reliant on food imports and is vulnerable to international price fluctuations.

16. The third household survey (IOF) undertaken in 2009 by the National Institute of Statistics (INE), points to a stagnation in poverty levels around 55%, compared with the previous survey, conducted in 2003. Human development indicators are still progressing at a slow pace, which is reflected in its HDI score of 0.393 and the positioning of Mozambique in 178th place out of 187 countries (2014 HDI report) which, however, shows a slight improvement in comparison with 2012, in which the HDI score was 0.327.

17. In addition to low production and productivity of the agricultural sector, there are other factors influencing the limited impact of economic growth on job creation and poverty reduction, such as the concentration of growth in industries with high capital intensity and with little impact on job creation, combined with insufficient levels of skilled labour, high cost of credit, insufficient and/or deficient infrastructure and an unfavourable environment for business development.

2.2. Budget Results 2012-2014

18. The last three years have been characterized by a good performance of domestic resource mobilization and two significant budget revisions, which have led to an increase in public expenditure of 10 percentage points of GDP over three years, as shown in Table 3. This expansion has been largely enabled by extraordinary revenue collection associated with taxes on capital gains from the re-sale of exploitation rights in the extractive industry. This allowed an increase in expenditure to a record level of 41.9% of GDP in 2014, in part due to the costs of general elections, as well as increases in the levels of personnel expenditure and capital expenditure, and in 2014, the purchase of naval patrol boats, associated with investments in maritime safety.

Table 3: Summary of the fiscal operations of the Central Government 2012-14

Budget	2012	2013	2014
	% of GDP		
Total revenue and Grants	27,6	32,2	31,3
Revenues	22,4	26,9	27,3
Grants	5,2	5,3	4
Total expenditure and net lending	**31,4**	**34,9**	**41,9**
Expenditure exc. Interest	30,4	34,1	40,7
Interest on public debt	1	0,8	1,2
Aggregate Deficit, after grants	**-4**	**-2,8**	**-10,6**
Primary Fiscal Deficit	**3,8**	**2,7**	**10,6**
Net Financing	**4**	**2,8**	**10,6**
External Borrowing	3,3	5,8	9,4
Domestic Borrowing	0,7	-3	1,2
Memo nominal GDP (10^9 MZN)	424	470	526

Source: IMF, PSI, January 2015 (adaptation of table 3 p22)

19. The combination of these particular factors resulted in a primary budget deficit, which more than tripled in 2014 in comparison with 2013, as illustrated in Table 3. Moreover, it also had an impact on the levels of internal and external debt: in three years, the total debt stock increased by 10pp: from 39% of GDP by the end of 2011 to 49% percent of GDP by the end of 2014 (CGE 2012 and 2014). This trend will necessarily lead to a process of fiscal consolidation in the coming years to ensure the fiscal sustainability of the national debt.

Table 4: Economic Classification of Central Government Expenditure (% GDP)

BUDGETARY ALLOCATIONS	2012	2013	2014
Total expenditure and net lending	**31,4**	**34,9**	**41,9**
Current expenditure	**18,5**	**19,7**	**24,1**
Compensation to employees	9,8	10,5	11,1
Goods and services	3,6	4,3	7,9
Interest on public debt	1	0,8	1,2
Transfer payments	4,1	4	4
Capital expenditure	**11,8**	**13,1**	**14,5**
Net lending	**1,1**	**2,1**	**3,3**

Source: IMF, PSI, January 2015 (adaptation of table 3 p22)

20. In terms of expenditure composition, as illustrated in Table 4, current expenditure currently accounts for 24% of GDP in 2014, against 18% in 2009, having grown considerably in recent years as a result, mainly, of the increase in wages and salaries and expenditure on goods and services (which, as already mentioned, have increased exceptionally in 2014). Capital expenditure (investment) has also registered significant growth rates, representing 15% of GDP in 2014, against 9% in 2009, at the time of the previous PEFA assessment.

21. The proportion of expenditure allocated to priority sectors has registered a slight downward trend in the past three years, (Table 5), decreasing from 67% in 2012 of the total expenditure to around 61% in 2014.

Table 5: Public expenditure in Priority Sectors 2012-14

SECTOR / ANO	2012 CGE	2013 CGE 10^6 MZN	2014 CGE	2012 CGE	2013 CGE % da Despesa Total	2014 CGE
EDUCAÇÃO	26.803	31.703	37.318	**20%**	**19%**	**19%**
SAÚDE	15.660	20.869	17.436	**12%**	**13%**	**9%**
INFRAESTRUTURAS	21.508	26.743	27.801	**16%**	**16%**	**14%**
AGRICULTURA E DESENVOLVIMENTO RURAL	11.003	13.548	12.133	**8%**	**8%**	**6%**
BOA GOVERNAÇÃO	10.514	15.174	20.489	**8%**	**9%**	**10%**
OUTROS SECTORES PRIORITÁRIOS	4.328	5.272	6.603	**3%**	**3%**	**3%**
Acção Social	3.906	4.738	5.998	**3%**	**3%**	**3%**
Trabalho e Emprego	422	535	605	**0%**	**0%**	**0%**
Despesa Total nos Sectores Prioritários	**89.816**	**113.309**	**121.780**	**67%**	**69%**	**61%**
Despesa Total (Excluindo Encargos da Dívida)	**133.137**	**163.986**	**200.313**	**100%**	**100%**	**100%**

Source: CGE 2012, 2013 and 2014

2.3. Structure of the Government and the State budget

22. The country is composed of 11 provinces [4] and 151 districts [5], of which 23 are new districts that were created after the previous PEFA assessment. Districts are in turn subdivided into administrative wards ('postos') and villages ('localidades'). There are a total of 53 urban municipalities (against the 43 recorded during the last PEFA assessment) which enjoy political autonomy, with local authorities that are directly elected and have competences to raise local revenues and determine their budgets.

23. The State budget thus includes three types of institutions:

- Central Government entities, including the "State Powers" (Office of the President, Office of the Prime Minister, Parliament and Courts) and 23 Ministries[6];
- Geographically deconcentrated Central Government entities (provinces and districts); and
- Autonomous municipalities ('autarquias') that are legally independent in relation to administrative, financial and patrimonial aspects.

24. As shown in Table 6, in terms of 2014 expenditure by administrative level, one can observe a greater deconcentration, with a decrease in the total expenditure by 3pp at Central level, in favour of the provincial and district levels. On average, in the period under review, 63% of the expenditure is concentrated at the Central level, 21% at Provincial level, 14% at the district level and 2% at municipalities' level.

[4] Ten provinces plus the capital Maputo which has the status of a province.

[5] The number of districts commonly mentioned is 128 because 3 others are both districts and municipalities. These act as districts regarding the functions financed by the Central Government and as municipalities in relation to their other competencies.

[6] 21 sectoral Ministries and 2 Ministries in the Presidency.

Table 6: Public expenditure by Government levels 2012-2014

Nível / Tipo Despesa	10^6 MZN				% of TOTAL			
	Funcionamento	Invest. Interno	Invest. Externo	Total	Funcionamento	Invest. Interno	Invest. Externo	Total
2012 CGE								
Central	44.303	17.814	25.287	**87.403**	53%	71%	89%	**64%**
Provincial	21.809	3.635	2.886	**28.329**	26%	15%	10%	**21%**
Distrital	16.486	2.736	358	**19.580**	20%	11%	1%	**14%**
Autárquico	1.207	743		**1.950**	1%	3%	0%	**1%**
TOTAL	**83.805**	**24.927**	**28.530**	**137.262**	**100%**	**100%**	**100%**	**100%**
2013 CGE								
Central	47.628	24.313	35.086	**107.027**	50%	71%	92%	**64%**
Provincial	26.608	5.691	2.905	**35.204**	28%	17%	8%	**21%**
Distrital	19.897	3.113	298	**23.307**	21%	9%	1%	**14%**
Autárquico	1.521	896		**2.417**	2%	3%	0%	**1%**
TOTAL	**95.655**	**34.013**	**38.288**	**167.955**	**100%**	**100%**	**100%**	**100%**
2014 CGE								
Central	57.086	32.449	27.150	**116.685**	49%	74%	86%	**61%**
Provincial	33.604	6.208	3.771	**43.583**	29%	14%	12%	**23%**
Distrital	24.108	4.120	750	**28.977**	21%	9%	2%	**15%**
Autárquico	1.985	1.255		**3.239**	2%	3%	0%	**2%**
TOTAL	**116.782**	**44.032**	**31.670**	**192.484**	**100%**	**100%**	**100%**	**100%**

Source: CGE 2012, 2013 and 2014

25. Provinces and districts operate as agencies of Central Government ministries at a decentralized level. They are referred to as Local State Organs and the districts function as local entities under the responsibility of the provincial governments. The Local Level is also covered by the law regulating the PFM system, the SISTAFE law ('Sistema de Administração Financeira do Estado' : State Financial Administration System), but also is governed by the law and regulations of the Local State Organs ('Órgãos Locais do Estado').

26. Provincial and district governments (who are appointed rather than elected) have their own budgets, which are submitted for consideration and approval as part of the State Budget ('Orçamento do Estado': OE). The municipalities have their own finances and assets which are managed autonomously, in accordance with the Law Nº 1/2008, which sets the patrimonial, budgetary and financial provisions of the municipalities. The municipalities are autonomous with regard to their finances and assets but are accountable to elected assemblies. However, they are also subject to internal audit by the General Inspection of Finances (IGF) and external audit by the Administrative Court (TA).

27. The State budget (OE) also includes transfers to: *a)* autonomous government agencies that enjoy managerial autonomy to undertake specific, non-commercial activities (institutes, funds, etc.); *b)* municipalities and *c)* public enterprises that receive state subsidies.

2.4. Description of the legal and institutional framework for PFM

28. The legal and institutional framework remains largely unchanged since the last PEFA assessment. The main applicable legislation in the area of PFM is presented in Annex V. The PFM system is governed by the law and the regulations of SISTAFE (State Financial Management System), approved in 2002 and 2004 respectively.

SISTAFE was established with the intent to harmonize the rules and procedures on public financial management, so as to achieving greater effectiveness, efficiency, and transparency in the use of public funds by the State bodies and institutions.

29. In the last 15 years, significant progress has been recorded in Mozambique in the PFM area, boosted especially by the development and introduction of an integrated financial management information system to support the SISTAFE (the e-SISTAFE). This system is being implemented and expanded gradually, based on the conceptualization and operationalization of 5 key subsystems, namely the State Budget; Public Accounting; Public Treasury, State Assets and Internal Control, as detailed below:

- The State budget subsystem which regulates the process of formulation of the State Budget and the elaboration of the budget law presented to the Assembly of the Republic, as well as the evaluation of the annual budget submissions of State institutions and bodies;
- The Public Accounting Subsystem which ensures the production and maintenance of the accounting records of transactions carried out by the State institutions and authorities and their impact on the State's asset position. Among other things, it regulates the implementation of the State budget and the preparation of the General State Accounts ('Conta Geral do Estado'; CGE);
- The Public Treasury Subsystem which regulates the processes of financial planning, expenditure management and effecting of payments related to the State budget, as well as the monitoring of State Treasury position. The subsystem also includes the generation of financial statistics, and internal and external debt management;
- The State Asset ('*Património do Estado'*) subsystem, which governs the coordination and management of the property and other assets of the State, the organization of information related to inventory and assets of the State and the preparation of the annual inventory;
- The Internal Control Subsystem which regulates the control of the good use of public resources, the application of the accounting rules and methods and the adherence to financial rules and legal procedures.

30. The e-SISTAFE is considered as a crucial tool in the implementation of PFM reforms, especially in the areas of budgeting, execution, accounting and public treasury management, and has been gradually deployed to Central, Provincial and District levels. The operating modules of e-SISTAFE are already used in about 75% of State institutions (for example Ministries, Provincial Directorates and District Secretariats), and about 60% of all public spending is now managed through the Treasury Account.

31. The five subsystems of the SISTAFE are coordinated by the functional departments of the Ministry responsible for public finances, namely, the Ministry of Economy and Finance (MEF), and are integrated through four macro-processes:

- Elaboration of the Medium-Term Fiscal Framework (CFMP), the annual Economic and Social Plan (PES) and the State budget (OE);
- Execution of the State Budget (OE);

- Administration of the State's assets;
- Evaluation/ auditing of the management of the Budget and of the State’s assets.

32. The Administrative Court (‘Tribunal Administrativo’: TA) is the Supreme Audit Institution in Mozambique – an autonomous body whose Chairman is appointed by the President of the Republic and approved by the Assembly of the Republic. The TA is directly responsible for the audit of the accounts of government entities, as well as of the total General State Account (CGE), on which it issues a formal opinion. In addition to this audit function, the TA acts as the Court of Auditors, with the judicial responsibility to analyze and make final decisions on the legal implications of the audits carried out in different departments, as well as to impose fines and/or initiate the relevant investigations.

33. The Administrative Court (‘Tribunal Administrativo’: TA) has jurisdiction and power to audit and monitor all acts leading to the incurrence of public expenditures. This Court exercises its powers, either by the conduct of external audits (ex post control), or by prior approval (ex ante control), in order to verify legal compliance and the correct recording and management of acts leading to the incurrence of public spending and public liabilities. All public institutions and State entities at central, provincial and local levels are subject to the TA’s audit and pre-audit, including public enterprises and agencies with administrative and financial autonomy, as well as the municipalities.

34. Only the CGE audit, its report and opinion is submitted to the Assembly of the Republic. It is first reviewed by the Planning and Budget Committee (CPO) and later is submitted for perusal by the plenary of the Parliament. Figure 4 below summarises the overall framework for public finance management in Mozambique, as described above:

Figure 4: Structure of the PFM system in Mozambique

Institutions involved	Macro-process/SISTAFE subsystem and ICT support system
1. Collection and administration of State revenue	
Tax authority of Mozambique and subordinate institutions (e.g. Tax Department Directorate in the entire country)	Macro-processes: N/A SISTAFE sub-system: N/A TIC: e-Taxation system (under development)
2. Preparation and the State budget management	
National Directorate of Budget (DNO), in coordination with the areas responsible for planning at the level of the (former) Ministry of Planning and Development (Planning Directorate-DNP, Studies and Policy Analysis – DNEAP, Monitoring and Evaluation DMA, and Investments and Cooperation - DIC); and Provincial Directorate of Planning and Financing – DPPFs, to comply with the following functions at local level.	SISTAFE Macro-processes: Proposals of the Medium-Term Fiscal Scenario (CFMP), Economic and Social Plan (PES) and the State budget (OE). SISTAFE subsystem: State Budget (Subsistema do Orçamentoo d Estado - SOE) TIC System: Budget Preparation module-MEO (completed) and planning module (in design phase)
3. Implementation of the State Budget (including expenditure accounting and reporting)	

Institutions involved	Macro-process/SISTAFE subsystem and ICT support system
National Directorate of Public Accounting and the Provincial Directorates of Planning and Finance - DPPFs	SISTAFE Macro-processes: State Budget Execution SISTAFE subsystem: Public Accounting (Subsistema d Contabilidade Publica - SCP) TIC system: e-Directory of Agents and State Officials (e-CAF) and e-FOLHA for the processing of salaries and wages (currently being implemented); The Budget Execution Module -MEX for the payment of public expenditure (completed) associated with CUT
4. State Treasury Management	
National Directorate of Public Accounting and the Provincial Directorates of Planning and Finance – DPPFs; Central Bank of Mozambique	SISTAFE Macro-processes: State Budget Execution SISTAFE subsystem: Public Treasury (Subsistema do Tesouro Publico) TIC System: Treasury account – CUT and Budget Execution Module-MEX (completed)
5. Public Acquisitions	
Functional Acquisition Supervision Unit - UFSA/National Directorate of the State Heritage-DNPE	SISTAFE Macro-processes: State Budget Execution SISTAFE subsystem: State Budget (SPE) TIC System: e- *Procurement* (in development) and MEX
6. Inventory and State Assets Management	
National Directorate of the State Heritage-DNPE and Provincial Directorates of Planning and Finance-DPPFs	SISTAFE Macro-processes: State Heritage Administration SISTAFE subsystem: State Assets (Subsistema do Património do Estado - SPE) TIC: e-Inventory System (implementation) and e-Patrimonio (in development)
7. Internal control and internal audit support	
General Inspection of Finance and its delegations, in coordination with sector inspections and Inspections carried out by Local State Authorities.	SISTAFE Macro-processes: Evaluation of Budget management and State Equity SISTAFE subsystem: Internal Control (Subsistema do Control Interna) TIC System: Information Management System - SGI (in development) and all the other systems mentioned earlier
8. External Audit	
Administrative Court (third section that audits public spending)	SISTAFE Macro-processes: Evaluation of Budget management and State Assets SISTAFE subsystem: N/A TIC System: All the systems previously mentioned

3. PFM reform structures and processes

3.1. Recent or ongoing reforms

35. In order to guide the implementation of PFM reform in the medium and long term, the Government, through the Council of Ministers approved in 2011 the "Public Finance Vision 2011-2025". This strategic planning process was led by CEDSIF, and resulted in the definition of six key objectives, as shown in the following figure:

Figure 5: Objectives of the Public Finance Vision

- Goal 1: Organization and modernization of the planning, programming, budgeting and execution system according to programmes and results, promoting the decentralization of these processes.
- Goal 2: Expansion of revenues and internal savings, management of expenditure trends in the light of fiscal objectives and efficient allocation of internal and external resources by means of the OE and the CUT.
- Goal 3: Improved administration and prudent management of the assets, equity holdings and public enterprises of the State, as well as of public debt, pensions and social security liabilities, integrating these processes fully within e-SISTAFE.
- Goal 4: Organization of the processes for reporting – for accounting and statistical purposes – of the asset position and the financial/ economic status of the organs, institutions and other entities of the State, regardless of their degree of autonomy in respect of finances and assets.
- Goal 5: Improved development and availability of statistical, economic and financial information for Public Enterprises in order to support their improved management and governance, strengthening internal and external control, monitoring and public accountability.
- Goal 6: Continuous modernization of IT processes, systems and infrastructure to maximize the professionalism and capabilities of national human resources.

36. Recent studies undertaken, particularly by the IMF, have pointed to the need for a more comprehensive reform of the PFM system, so as to avoid a strategy based too narrowly on the development and implementation of the e-SISTAFE system.

37. This does not mean that the various micro-processes constituting e-SISTAFE are not of paramount importance. Nor does it mean that there should be any reduction in the level of effort dedicated to increase the use of e-SISTAFE and to promote its further development, in particular through the finalization of certain strategic modules, such as e-Património (for asset management) or of those modules addressing high risk areas, such as the payroll module - e-folha. However, these efforts should be broadened to ensure a fuller implementation of the revenue modules, which being less developed, end up undermining the level of reporting on revenues which it is possible to include in accounting reports such as the REOs and the CGE.

38. Therefore, the GdM has engaged in the definition of the strategy paper referred to above, (the "Vision"), which was developed to guide the PFM reforms for the next 10 years. The Vision document includes a broad description of the challenges and lessons learnt from the reforms to date.

39. The Vision document also establishes the guiding principles of the approach to PFM reform and thus provides the basis for the development of an operational plan. However, since this is a guiding document, it contains neither detailed targets nor estimates of the associated costs, since it is considered as a dynamic instrument and so will be the subject of regular updates (a first review is expected in 2016).

4. Public Finance Management Assessment 2015

4.1. Overview

40. The PFM performance measurement framework - in other words, the PEFA methodology in the 2011 version, identifies the following as critical dimensions of the performance of an open and orderly PFM system:

- Credibility of the budget – The budget is realistic and is implemented as planned;
- Comprehensiveness and transparency -The budget and the fiscal risk prediction are comprehensive and the fiscal and budgetary information are accessible to the public;
- Budgeting based on policies – The budget is prepared keeping in mind the Government's policies and their implications in the medium term;
- Predictability and control in budgetary implementation – The budget is implemented in an orderly and predictable manner and arrangements are made for the exercise of control and management in the use of public funds;
- Accounting, recording and reporting -Information and adequate records are produced, maintained and disseminated for the purposes of control in decision-making, management and reporting;
- External Analysis and audit -Legal and institutional arrangements for the implementation of activities of the perusal of the accounts of public institutions are in operation and the mechanisms for its monitoring and verification of the follow-up of recommendations made by the Government are in operation.

41. The PEFA 2011 also identifies relevant criteria with regard to donor practices:

- Donor Practices - Grants and external loans to finance government activities are budgeted and disbursed taking into account predictability of funds and transparency in the allocation and use of these funds, promoting the use of national systems and procedures.

42. The figure below shows the full 31 indicators on which this evaluation is based and presents their performance score in 2015. A full description of the methodology applied is available at www.pefa.org. For each of the 31 indicators, this section of the report presents the information available that enabled the classification of the indicator, a comparison with the 2010 assessment and the prospects for future.

43. The Summary Assessment at the beginning of this report provides the overview of the assessment. A summary table of the scores by indicator and dimension is included in Annex I to this report.

Figure 6: Overview of PEFA Scores by Performance Indicator, 2007, 2010 & 2015

INDICATOR		2007	2010	2015
A. PFM OUT-TURNS: Credibility of the budget				
PI-1	Aggregate expenditure out-turn compared to original approved budget	B	**A**	**A**
PI-2	Composition of expenditure out-turn compared to original approved budget	Not Comparable		D+
PI-3	Aggregate revenue out-turn compared to original approved budget	Not Comparable		**A**
PI-4	Stock and monitoring of expenditure payment arrears	B+	B+	D+
B: KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency				
PI-5	Classification of the budget	B	**B**	**B**
PI-6	Comprehensiveness of information included in budget documentation	B	**A**	**C**
PI-7	Extent of unreported government operations	C+	**B**	B+
PI-8	Transparency of inter-governmental fiscal relations	C+	**B**	**B**
PI-9	Oversight of aggregate fiscal risk from other public sector entities	D+	D+	C+
PI-10	Public access to key fiscal information	B	**B**	**B**
C: BUDGET CYCLE				
C(i) Policy-Based Budgeting				
PI-11	Orderliness and participation in the annual budget process	B+	B+	B+
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	C+	C+	C+
C(ii) Predictability and Control in Budget Execution				
PI-13	Transparency of taxpayer obligations and liabilities	B+	**A**	**A**
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	B	**A**	**B**
PI-15	Effectiveness in collection of tax payments	D+	C+	D+
PI-16	Predictability in the availability of funds for commitment of expenditures	C+	C+	C+
PI-17	Recording and management of cash balances, debt and guarantees	A	**A**	**A**
PI-18	Effectiveness of payroll controls	B	**B**	**B**
PI-19	Competition, value for money and controls in procurement	Not Comparable		D+
PI-20	Effectiveness of internal controls for non-salary expenditure	B	B+	C+
PI-21	Effectiveness of internal audit	B	C+	B+
(C) (iii) Accounting, Recording and Reporting				
PI-22	Timeliness and regularity of accounts reconciliation	B	**B**	**B**
PI-23	Availability of information on resources received by service delivery units	D	**D**	**D**
PI-24	Quality and timeliness of in-year budget reports	C+	C+	**B**
PI-25	Quality and timeliness of annual financial statements	C+	C+	B+
C (iv) External Scrutiny and Audit				
PI-26	Scope, nature and follow-up of external audit	C+	C+	C+
PI-27	Legislative scrutiny of the annual budget law	B+	C+	C+
PI-28	Legislative scrutiny of external audit reports	C+	C+	C+
D. DONOR PRACTICES				
D-1	Predictability of Direct Budget Support	A	**A**	B+
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	D+	D+	D+
D-3	Proportion of aid that is managed by use of national procedures	D	**C**	D+

4.2. Credibility of the budget

PI – 1: Aggregate expenditure out-turn compared to original approved budget

Indicator	Dimension	Assessment 2007	Assessment 2010	Assessment 2015
PI – 1: Aggregate expenditure out-turn compared to original approved budget	(i) The difference between actual primary expenditure and the originally budgeted primary expenditure (i.e. excluding debt service charges, but also excluding externally financed project expenditure).	**B**	**A**	**A**

44. PI-1 to PI-4 are the set of indicators that analyze the credibility of the budget, that is, if the budget is implemented as approved by Parliament and whether there is the capacity to implement expenditure and revenue during the year. The ability to implement planned expenditure in the budget is an important factor in supporting the Government to provide public services in a predictable and transparent manner.

PI-1 Indicator: 2015 Assessment

45. For 2012, 2013 and 2014, the analysis of data extracted from the OE tables initially approved by AR in December, compared with the data on the executed budget as reported in the CGEs, show that in aggregate terms, the implementation of OE has been credible, just showing a deviation exceeding 5% in relation to the approved budget for 2013. Primary expenditure, defined as total expenditure excluding debt charges and projects financed by external sources, has been 96%, 107% and 103% respectively.

Table 7: Aggregate expenditure compared with the original approved Budget (OE), 2012 – 2014

MZN 10^3	OE*	CGE	% Execução	OE*	CGE	% Execução	OE*	CGE	% Execução
	2012			2013			2014		
1 Despesa total (classificação Mapa A do OE)	163.035.400	145.245.200	89,1%	174.954.956	182.190.700	104,1%	240.891.432	227.049.200	94,3%
2 Despesa total (classificação Mapa I-1 da CGE)*	160.219.253	142.430.600	88,9%	171.113.201	178.519.900	104,3%	234.202.840	222.020.000	94,8%
3 Encargos da Divida	4.626.376	4.125.400	89,2%	5.622.421	3.969.700	70,6%	6.347.003	5.192.930	81,8%
4 Projectos financiados externamente	41.256.778	28.530.000	69,2%	38.644.703	38.287.900	99,1%	58.279.555	41.661.700	71,5%
5 Despesa total ajustada (2-3-4)	**114.336.099**	**109.775.200**	**96,0%**	**126.846.077**	**136.262.300**	**107,4%**	**169.576.282**	**175.165.370**	**103,3%**

* Aprovado inicialmente

** Exclui Operações Financeiras Passivas (amortizações)

Memo: Operações Financeiras Passivas	2.816.147	2.814.600	99,9%	3.841.755	3.670.800	95,6%	6.688.592	5.029.200	75,2%

46. The real primary expenditure (total expenditure excluding debt charges and the projects financed by external resources) was therefore consistent with the expenditure budgeted for two of the three years analyzed, which implies that the score of this indicator is "A".

Comparison with 2010 assessment

47. The deviations of aggregate expenditure from the approved budget observed in the previous review (0.4% in 2007, 1.5% in 2008 and 0.35% in 2009), are slightly lower than to those recorded in this evaluation (4% in 2012, 7% in 2013 and 4% in 2014). Given that the current assessment relates to a period in which there were major increases in expenditure (financed by corresponding increases in revenue, especially as a consequence of Capital Gains taxes on the re-sale of LNG concessions), it is to the credit of the Mozambican authorities that deviations between aggregate executed expenditure and the approved budget were kept within the limits consistent with an "A" score for this indicator.

PI – 2: Composition of expenditure out-turn compared to original approved budget

<table>
<tr><th>Indicator</th><th>Dimension</th><th>Assessment 2007</th><th>Assessment 2010</th><th colspan="2">Assessment 2015</th></tr>
<tr><td rowspan="2">PI – 2: Composition of expenditure out-turn compared to original approved budget</td><td>(i) Extent of the variance in expenditure composition during the last three years, excluding contingency items.</td><td colspan="2" rowspan="2">Not comparable</td><td>D</td><td rowspan="2">D+</td></tr>
<tr><td>(ii) The average amount of expenditure actually charged to the contingency vote over the last three years.</td><td>A</td></tr>
<tr><td colspan="6">Rating Method: M1</td></tr>
</table>

48. When the composition of expenditure varies considerably in relation to the original budget, the budget is no longer a useful statement of intent with regard to government policies. Moreover, frequent changes to administrative budgets during the period of budget execution undermine the predictability of budgets and complicate the processes of programming and managing procurement, staff recruitment and service delivery. The measurement of indicator PI-2 requires a comparison of the expenditure executed in relation to the original budget, at a disaggregated level. As the OE of Mozambique is adopted and managed on an institutional (administrative) basis (Ministry/Department/Agency/Fund or Institute), this is the basis of the comparison here applied.

PI-2 Indicator: 2015 Assessment

49. Changes in the aggregate level of expenditure (evaluated at PI-1) will require corresponding changes at the administrative/ institutional sector. The first dimension of PI-2 assesses the extent to which the reallocations between institutions during budget implementation contributed to a more than proportionate change in the composition of expenditure. The change in the composition of executed expenditure in comparison with the originally approved budget is measured through the variation of primary spending (excluding interest payments and externally funded investment projects) at the individual level of ministries and agencies.

Table 8: Deviations from Budget in the expenditure composition, 2012-2014

	para PI-1	para PI-2 (i)
Ano	Variação total despesas	Composição da variação (30 primeiras UGBs)*
2012	**4,0%**	**13,0%**
2013	**7,4%**	**27,4%**
2014	**3,3%**	**27,8%**

*UGBs de Nível Central, exc. Encargos Gerais do Estado.

Source: Data provided by DNO (extracted from e-SISTAFE)

50. In 2007 the variation was 16.7%, in 2008 was 14.5% and in 2009 was 16.6% which resulted in a "D" rating for this indicator. The three-year period 2012, 2013 and 2014 presents an even greater deterioration, since the variation is, respectively, 13%, 27% and 28%, and the rating remains the same, "D".

Table 9: Expenditure Composition, 2014

Rúbricas orçamentais (administração ou função)	Despesas de Funcionamento e Investimento Interno		variação absoluta %
	Orçamento	Execução	
47A001941 - FUNDO DE ESTRADAS	8.953.828.410	10.608.618.165	15%
17A000141 - MINISTERIO DO INTERIOR	7.872.180.390	7.231.513.079	11%
58A000141 - MINISTERIO DA SAUDE	6.200.230.210	5.880.532.020	8%
15A000341 - FORCAS ARMADAS DE DEFESA DE MOCAMBIQUE	4.524.153.640	4.704.460.534	1%
27A002241 - AUTORIDADE TRIBUTARIA DE MOCAMBIQUE	4.840.140.880	4.511.324.476	10%
27A002641 - DIRECCAO GERAL DE IMPOSTOS - ATM (INCLUI IVA)	-	4.485.281.411	#DIV/0!
50A002841 - UNIVERSIDADE EDUARDO MONDLANE	2.649.367.080	2.242.701.888	18%
19A000141 - SERVICO DE INFORMACAO E SEGURANCA DO ESTADO	1.904.249.340	1.988.553.288	1%
01A000141 - PRESIDENCIA DA REPUBLICA	1.252.090.580	1.929.878.300	49%
25A001541 - SECRETARIADO TECNICO DE ADMINISTRACAO ELEITORAL	105.950.760	1.525.877.051	1294%
58A000741 - HOSPITAL CENTRAL DE MAPUTO	1.556.585.890	1.221.881.521	24%
21A001341 - EMBAIXADAS E OUTRAS REPRESENTACOES DIPLOMATICAS	1.215.012.890	1.211.267.670	3%
35A000141 - MINISTERIO DA AGRICULTURA	1.761.141.900	1.035.307.344	43%
15A000141 - MINISTERIO DA DEFESA NACIONAL	1.210.788.030	997.713.170	20%
17A000841 - COMANDO GERAL DA POLICIA	896.933.760	951.039.521	3%
05A000141 - ASSEMBLEIA DA REPUBLICA	901.061.600	942.288.148	1%
35A004941 - FUNDO DO DESENVOLVIMENTO AGRARIO	662.954.890	927.998.277	36%
01A000741 - CASA MILITAR	762.049.420	882.436.672	12%
50A000141 - MINISTERIO DA EDUCACAO	1.510.107.080	813.710.752	48%
40A001041 - FUNDO NACIONAL DE ENERGIA	824.027.930	595.766.317	30%
50A003141 - UNIVERSIDADE PEDAGOGICA	647.166.790	574.624.724	14%
11A000141 - TRIBUNAL ADMINISTRATIVO	524.808.850	551.670.063	2%
47A000341 - DIRECCAO NACIONAL DE AGUAS - MOPH	-	518.628.373	#DIV/0!
45A003041 - FUNDO DE DESENVOLVIMENTO DE TRANSPORTES E COMUNICA	229.884.210	498.523.114	110%
27A001141 - CENTRO DE DESENVOLVIMENTO DE SISTEMAS DE INFORMACAO	420.000.000	438.223.528	1%
27A000141 - MINISTERIO DAS FINANCAS	361.947.150	431.053.661	15%
21A000141 - MINISTERIO DOS NEGOCIOS ESTRANGEIROS E COOPERACAO	503.494.320	410.913.013	21%
47A002741 - FUNDO DE INVESTIMENTO E PATRIMONIO DO ABASTECIMENTO D	461.446.240	407.679.002	14%
45A000141 - MINISTERIO DOS TRANSPORTES E COMUNICACOES	442.803.290	386.214.434	16%
56A000141 - MINISTERIO DA CULTURA	251.690.830	379.174.605	46%

Source: Data provided by DNO (extracted from e-SISTAFE)

51. In the calculation, the assessment covered the most important 30 institutions (*Unidades Gestóras Beneficiárias* – UGBs), in terms of their weight in total expenditure (excluding "Encargos Gerais do Estado). These 30 UGBs represent on average 33% of the total expenditure for each of the years analyzed, and there are currently more than 1000 UGBs (considering all levels), due to the increasing administrative deconcentration. Accordingly, in comparison with the past PEFA assessments, there has been a scattering of expenditure allocations across more entities.

52. It is difficult to establish the precise factors which lie behind the high deviation found between approved budgets and actual expenditures at the institutional level. Clearly, the high level of budgetary reallocations which are allowed within the current legal framework without the need for Legislative approval facilitates such a trend. However, the root causes are more likely to be associated with weaknesses in planning and budgeting processes at the institutional level.

Table 10: Budgetary Allocation for contingencies

MZN 10^6	OE 2012	OE 2013	OE 2014
Dotação Provisional de funcionamento	535.906	650.000	800.000
Dotação Provisional de investimento	650.000	615.000	695.980
Total	1.185.906	1.265.000	1.495.980
Memo: % da despesa total	*0,7%*	*0,7%*	*0,6%*

53. Dimension (ii) considers the average expenditure recorded under the heading for contingencies, named "provisional appropriation", (*dotação provisional*). In the three most recent years, this provision has been entirely allocated, executed and accounted for under the budget heads of the institutions (UGBs), which have received budget transfers from this contingency allocation. Thus, the rating is "A".

54. Thus for the past three years, the contingency allocation is recorded in the final accounts (CGE) with a revised appropriation and a final expenditure of zero. Unfortunately, because the CGE reports the position at year end, in which transfers from the contingency budget are merged with other budgetary re-allocations, the reports available in the CGE do not identify the institutions which have benefitted from contingency allocations and the magnitude of the transfers in comparison with original appropriations. However, the e-SISTAFE system does record all budgetary reallocations made during the year and a special report on allocations from the contingency budget could be generated without difficulty.

PI – 3: Aggregate revenue out-turn compared to original approved budget

Indicator	Dimension	Assessment 2007	Assessment 2010	Assessment 2015
PI – 3: Aggregate revenue out-turn compared to original approved budget	(i) Actual domestic revenue compared to domestic revenue in the originally approved budget.	Not comparable		**A**

55. A correct revenue forecast is a key element for the preparation of a credible budget. Optimistic revenue forecasts can lead to unfundable expenditure allocations and thus to larger budget deficits, unless timely expenditure cuts can be made in response to under-collection of revenue. On the other hand, an under-estimation of revenue collections could lead to the resources, from higher than budgeted revenues, being used for expenditures that were not well planned and programmed or that have not been subject to the scrutiny of the budget process.

PI-3 Indicator: 2015 Assessment

56. Collections of State revenue in the period under review have been consistently above the targets budgeted in the initially approved, annual budget (OE). (See table 11.) In addition, collections did not exceed 106% of the revenue budgeted in more than one of the years analyzed, thus earning the "A" rating.

57. The steady consolidation of the Tax Authority of Mozambique (*AT - Autoridade Tributária de Moçambique*), created in 2006 by the merging of the Directorates-General for Taxation and Customs, has been a major contribution to this positive performance. The reforms implemented in recent years, aimed at extending the tax base and strengthening tax administration, have also been important contributory factors. Amongst the recent reform measures with the greatest impact, five in particular stand out: the significant expansion of tax collection offices, implementation of the Electronic Single Window to facilitate customs clearance and payment of duty, introduction of the Simplified Tax for Small Contributors-ISPC (*Imposto Simplificado dos Pequenos Contribuintes*); improvements in the management of large taxpayers; and development of audit and inspection activities.

Table 11: Collection of revenue compared with the original approved budget (OE) 2012-2014

MZN 10^3	OE*	CGE	execução %	OE*	CGE	execução %	OE*	CGE	execução %
	2012			2013			2014		
Receitas do Estado	95.537.958	98.476.650	**103%**	113.961.986	126.318.714	**111%**	147.371.589	156.336.108	**106%**
Receitas do Estado excluindo Mais Valias		*93.354.110*			*114.161.414*			*138.281.938*	
Mais Valias em % da Receita do Estado		*5,2%*			*9,6%*			*11,5%*	
Memo: Mais Valias		*5.122.540*			*12.157.300*			*18.054.170*	

Source: REO 2013, Table A of the OE, CGE and AT Performance Reports for 2012, 2013 and 2014.

58. In terms of composition, the main sources of revenue have been corporate and personal income tax and VAT (IRPC: *Imposto sobre o Rendimento das Pessoas Colectivas;* IRPS: *Imposto sobre o Rendimento das Pessoas Singulares; IVA: Imposto sobre o Valor Acrescentado)*. A notable feature of the recent trends in revenue collections, impacting upon receipts of corporate income tax (IRPC) have been the receipts from Capital Gains Tax (*tributação de mais-valias)* deriving from the extra-ordinary gains from re-sale of exploration and exploitation concessions for Liquid Natural Gas (LNG). In the three years under review, these are responsible for 5%, 10% and 12% respectively of the total revenue collected, as shown in Table 11 and 12.

59. It should be noted that data on both projected and actual collections of VAT are slightly inflated, due to the fact that in the period under review, this revenue has been recorded gross rather than net, i.e. without excluding reimbursements owed to taxpayers, for which a provision has always been budgeted in the expenditure budget. However, this provision has never been enough to entirely cover claims for refunds, whose value has tended to increase over time leading to an accumulation in VAT arrears, especially in recent years. By the end of 2014, the global stock of estimated VAT arrears reached 8.9 billion MZN. In the 2015 OE, the VAT has been programmed correctly, in other words net of refunds, which should not correctly speaking be considered as expenditure.

Table 12: Revenue collections by source, 2012-2014

	2012		2013		2014	
	Realização MZN 10^3	% do Total	Realização MZN 10^3	% do Total	Realização MZN 10^3	% do Total
1. RECEITAS DO ESTADO	98.476.650	**100%**	126.318.714	**100%**	156.336.108	**100%**
1.1 Receitas Correntes	96.696.462	**98%**	122.694.474	**97%**	153.449.063	**98%**
Receitas Fiscais	84.455.516	**86%**	107.542.728	**85%**	135.084.802	**86%**
Imposto sobre o Rendimento	36.796.476	**37%**	49.385.510	**39%**	63.097.198	**40%**
Imposto sobre Bens e Serviços	44.451.863	**45%**	54.613.066	**43%**	67.846.015	**43%**
Outros Impostos	3.207.177	**3%**	3.544.152	**3%**	4.141.589	**3%**
Receitas Não Fiscais	2.771.970	**3%**	3.500.303	**3%**	4.443.056	**3%**
Receitas Próprias	3.263.955	**3%**	3.987.082	**3%**	5.222.757	**3%**
Receitas Consignadas	6.205.021	**6%**	7.664.361	**6%**	8.698.448	**6%**
1.2 Receitas de Capital	1.780.187	**2%**	3.624.240	**3%**	2.887.044	**2%**
Memo: reembolsos do IVA	*3.529.967*	**4%**	*3.462.208*	**3%**	*4.485.241*	**3%**
Memo: Mais Valias	*5.122.540*	**5%**	*12.157.300*	**10%**	*18.054.170*	**12%**

Source: REO 2013; CGE 2012, 2013 e 2014; Anexo iii do Relatório TADAT.

Comparison with 2010 assessment

60. This indicator cannot be compared directly with the 2010 assessment due to the change in the classification system introduced in 2011. Although, if the new classification methodology had been applied, the 2010 evaluation rating would also have been an "A". Therefore, the performance improvement recorded in this indicator compared with the previous assessment is better considered as a consolidation of good performance over time - a clear reflection of the improvements achieved in tax policies and tax administration in the period since the establishment of the AT in 2006.

PI – 4: Stock and monitoring of expenditure payment arrears

Indicator	Dimension	Assessment 2007		Assessment 2010		Assessment 2015	
PI – 4: Stock and monitoring of expenditure payment arrears	(i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in stock.	A	B+	A	B+	C	D+
	(ii) Availability of data for monitoring the stock of expenditure payment arrears.	B		B		D	
							Rating Method: M1

61. Expenditure payment arrears are expenditure obligations that have been incurred by the Government for which the payment is overdue. It therefore constitutes a form of non-transparent financing. A high level of arrears can indicate several different problems, such as inadequate commitment controls, inadequate budgeting of contract obligations, under-budgeting of specific items and/or information gaps. The definition of an expenditure arrear

requires that the pending payment is due for a specific legal obligation or contract commitment undertaken by the Government; in addition, it should be formally overdue for payment.

PI-4 Indicator: 2015 Assessment

62. The increased use of e-SISTAFE is generating benefits in several indicators, and has the potential to improve the control of payment arrears. In particular, one of the outputs of the e-SISTAFE is the daily Expenses Payable Statement. This report includes information about payments pending, providing data for each payment on the UGE (Budget Execution Unit), UGB (Beneficiary Unit), Supplier name, NUIT (Tax number of the supplier), the budgeted amount, the resources requested for payment, the resources available for payment, payments made and values outstanding. Unfortunately, this facility is used exclusively as an operational management tool during the process of budget execution and not as an accounting tool incorporated into the year-end accounts (CGE); as a consequence, there is no regular report of the expenditure payments outstanding at year end.

63. Due to this lack of a formal accounting record of outstanding payments (which would normally also show the age profile of arrears), for the purpose of calculating this indicator, the expenditure included within the heading of "Operations attributable to closed accounts" (*Exercícios Findos*) was used as a proxy of expenditure in arrears. In practice, this would represent an over-estimate because it covers all payments made, corresponding to commitments of the previous financial year, not all of which would be in arrears (i.e. more than 30 days overdue). Based on the analysis of the evolution of this budget line, we conclude that it is not materially relevant, having constituted only 0.1% of the total expenditure over the past two years.

64. Nevertheless, as mentioned in the explanatory text for indicator PI-3, an unusual situation has developed with regard to the accumulation, over a number of years, of arrears relating to VAT refunds due to private sector enterprises. As we have noted, this situation is now being corrected with VAT payments to the *Autoridade Tributaria* being managed from 2015 onwards on a net rather than a gross basis. However, this has had an impact on the stock of payment arrears because by the end of 2014, the estimated aggregate stock of arrears of VAT refunds had reached MZN 8.9 billion[7], equivalent to 6 % of total expenditure in 2014.

65. With regard to dimension (i) of this indicator, we conclude that, despite the fact that e-SISTAFE has automated controls to prevent the accumulation of arrears – a fact reflected in the low level of allocations made for "*Exercícios Findos*" to clear outstanding commitments after the year end, the accumulation of arrears of VAT refunds means that the total stock of outstanding arrears at end 2014 would have been between 2% and 10% of total spending. Accordingly, a "C" score is awarded to dimension (i).

66. The second dimension of this indicator relates to the availability of information to permit proper monitoring of the stock of arrears. We noted that one of the outputs of the e-SISTAFE Budget Execution Module (MEX) is the daily Expenses Payable Statement, which would allow a systematic tracking of all expenditures, generated within e-SISTAFE, which are due for payment. However, it was found that it is not a routine practice of DNCP to extract reports from the e-SISTAFE about unpaid expenditure claims arising during the budget execution process, nor to request this information from the UGBs.

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7 IMF Country Report no. 15/223 (August, 2015) p. 5.

67. In short, even though the e-SISTAFE has automated controls to prevent the accumulation of arrears, there are no consolidated and updated data generated on a regular basis to provide an aggregated view of payments in arrears and their age. Therefore, dimension (ii) is accorded a “D”, and the indicator is scored as a "D+" overall.

Comparison with 2010 assessment

68. Comparing the current assessment with the 2010 assessment, we note that there has been a deterioration of the indicator as a whole. This is both because the arrears in VAT refunds, which reduced the score on dimension (i) were not significant in 2010 and because the weaknesses noted with respect to the reporting of arrears (dimension ii) were not detected in 2010. However, we do not believe that practices have actually deteriorated since 2010: rather, drawing on the guidance of the PEFA Field Guide issued in 2011, the assessment team has been able to detect weaknesses, which were very probably present in 2010 but were not apparent to the PEFA evaluation team.

Prospects for the future

69. During 2015, the stock of VAT refunds is to be cleared by AT by deducting these amounts from the VAT due during the year; in addition the recording of VAT receipts will be on a net basis from 2015 onwards, thus eliminating this potential source of arrears. Furthermore, what will be required to improve the scoring against this performance indicator in future evaluations will be for the reporting facilities of the e-SISTAFE Budget Execution Module (MEX) to be utilized in a systematic manner by DNCP to generate a comprehensive report on arrears within the CGE (including data on the age of arrears, the total stock and the comparison with previous periods). While it may still be possible to generate some expenditure claims outside of the e-SISTAFE system (for example, by authorizing overtime work by public servants, without making a corresponding budget commitment in advance), this is becoming less possible with the expanded use of the direct payment modality – *execução direita* - (as opposed to the use of cash advances) and the availability of e-SISTAFE in an increasing number of institutions (UGBs).

4.3. Comprehensiveness and Transparency

70. PI-5 to PI-10 are the set of indicators that analyze the cross-cutting issues related to the comprehensiveness and transparency of the budget. These indicators address aspects of the budget classification system, the coverage of budgetary and financial reporting, transparency of the budget documentation and other related aspects, including notably questions related to the management of fiscal risks.

PI – 5: Classification of the budget

Indicator	Dimension	Assessment 2007	Assessment 2010	Assessment 2015
PI – 5: Classification of the budget	(i) The classification system used for formulation, execution and reporting of the central government’s	**B**	**B**	**B**

Indicator	Dimension	Assessment 2007	Assessment 2010	Assessment 2015
	budget.			

PI-5 Indicator: 2015 Assessment

71. The classification system for revenues and expenditures used in the preparation of OE, in budget execution and accounting and in presentation of (quarterly) Budget Execution Reports (*REOs*) and (annual) General State Accounts (*CGE*) is based on the SISTAFE Law requirements regarding budget classifiers. Figure 7 shows a summary of the Budget Classifiers presently in use.

Figure 7: Budget classifiers in use, 2012-2014

Type of Classifier	Budget classifier in use	Presentation in the OE	Presentation in the CGE
Administrative	Organic classifier	Yes, for all years	Yes, for all years
Economic	Economic classifier of revenue (CER) and expenditure (CED). SISTAFE law uses a fully compatible GFS 2001 standard	Yes, for all years (e.g. Tables in the Budget and budget justification document)	Yes, for all years,
Functional	Functional classification (COFOG), with 10 functions and 69 sub-functions.	Yes, in 2012 and 2014. Aggregated at function level. (Budget justification document). Consistent with COFOG at aggregate level. Sub-functional level not disclosed	Yes, for all years functional & sub-functional levels,
Programme Classifiers	Programme and sub-programme classification (Table E of the budget)	Yes, for all years	No, not in any year

72. Other budget classifiers defined in the SISTAFE Law and presently in use, are:

- Management classifiers, which distinguish between Central and Local Government, Autonomous Municipalities (Autarquias) and Public Enterprises – effectively, an extension of the Administrative Classification;
- Territorial classifiers, which separate institutions (and their corresponding budgets/ expenditures) between territorial levels (Central, Provincial, District and Municipal) again, an extension of the Administrative Classification;
- Source of Financing, which can be internal or external, and broken down by specific modality (for the external component).

73. Another classification not foreseen in the Law but regularly used in budget documents is that of "priority expenditure". This category is used to aggregate, based on the organic classifier, the expenditures of the sectors considered as priorities in fighting poverty. The summary table of with this expenditure presentation is known as the "Priority Spending -*Mapa PARPA.*"

74. As noted in Figure 7, administrative and economic classifiers[8] are well established and are used in a consistent manner in the budget (OE), in quarterly reporting (REOs) and in year-end accounts (CGE). With regard to functional classifiers, these are applied only at the level of Functions within the Budget (OE). Moreover, although sub-functional classifiers are used during the process of budget execution (within e-SISTAFE) and are captured in the REOs and the CGE, there are doubts over the accuracy of the application of the sub-functional classifiers. Thus, the COFOG functional classifiers are only used in a correct and consistent manner (in the OE and CGE) at the functional level, but not at the sub-functional level.

75. Steps have been taken to introduce a Programme classifier, and there is a table included in the Budget (OE) for the presentation of expenditure according to a Programme classification. This "*Mapa E*" applies classifiers which seek to introduce the framework of a "Programme Budget" based on the SISTAFE Regulation. However, this classifier is still at an experimental stage as the concept of programmes is not yet effectively applied within the public administration system of Mozambique.

76. However, as a pilot exercise, programme classifiers have been applied in the last three years to illustrate the breakdown of expenditure (especially investment) according to programmes and sub-programmes derived from the Five-Year Plan of the Government (Table E of the Budget Law). However, this classification is not used for budget execution nor for the purposes of preparation of REOs and the CGE. This classification is being gradually improved, with the rationalization of the number of programmes in the OE for 2015. These programmes link the OE and PES, thus enabling an easier crossing of information contained in the two documents.

77. Thus, administrative and economic classifiers are used as well as a functional classifier, applying the 10 COFOG functions but not the 69 sub-functions. A programme classifier is being introduced but is not yet consistently applied both in budget formulation and execution. Therefore, the rating for this indicator is “B”.

Comparison with 2010 assessment

78. The situation was unchanged from the previous assessment.

Prospects for the future

79. In the future, as the programme classifier is developed and begins to be applied consistently both for budget formulation and execution, the rating against this indicator could rise to an "A". An alternative would be to apply the 69 COFOG sub-functions consistently and correctly both for budget formulation and execution. This would require reporting system compliance between the OE and execution and accounting reports (REOs and CGE), so that data is consistent and easily understood through a functional classifier that is unique and uniformly applied, at the sub-functional level.

[8] The application of economic classifiers is not fully consistent with GFS 2001 but economic classifiers are applied in the same way in the OE, REO and CGE.

PI – 6: Comprehensiveness of information included in budget documentation

Indicator	Dimension	Assessment 2007	Assessment 2010	Assessment 2015
PI – 6: Comprehensiveness of information included in budget documentation	(i) Share of the above listed information in the budget documentation most recently issued by the central government. (in order to count in the assessment, the full specification of the information benchmark must be met).	**B**	**A**	**C**

80. The documentation of the annual budget proposal, as submitted to the legislature for review and approval, must provide a complete picture of fiscal forecasts, budget proposals, current year appropriations and results of the previous year's budget. If the budget proposal documentation is not complete, the elected Legislature will not have the necessary elements to properly consider the quality of the proposal and the justification of the expenditures and proposed revenues. In order to be considered complete and comprehensive, the documentation of the Executive's proposal for the annual budget (with its supporting documents) should include 9 pieces of information, in accordance with standard international practices.

PI-6 Indicator: 2015 Assessment

81. The rating for this indicator is based on the analysis presented in the following figure, and which compares the information in the State Budget 2015 with the 9 information benchmarks required for obtaining an "A", according to the 2011 PEFA methodology. The information sources used are the State Budget Act approved by the National Assembly (*AR)* in May 2015, as well as the related Foundation Document and accompanying Tables.

Figure 8: Scope of the information included in budget documents

Element	Evidence analysis/Benchmark Compliance (Yes/No)
1. Macroeconomic assumptions, including at least estimates of aggregate growth, inflation and exchange rate	Presents a summary of the forecast of real GDP growth and inflation rate (but not the forecast exchange rate, so as not to influence market expectations). *Benchmark* Compliance - Yes
2. Budget deficit, defined according to GFS or other internationally recognized standard.	The aggregate amount of the overall budget deficit is clearly identified both in the Foundation Document (p28) and in the Budget Law 2015. However, it is not possible to determine these directly from the Budget Balance Table (Table p30 and The Law Proposal). This does not show the current balance and the overall balance before and after grants, in line with the Table I-1 of the CGE that is considered as being generally aligned with internationally accepted standards. Compliance with the *benchmark* - No
3. *Deficit* Financing, describing the intended composition.	The composition of deficit financing forecast, disaggregating internal sources (internal credit) and external (grants and credits) is clearly identified (p31 Foundation Document) Compliance with the *benchmark* – Yes
4. Outstanding debt, including details at least for the beginning of this year.	The documentation analyzed does not contain information on the debt stock and the forecast on the development, which can only be seen in the CGE. Compliance with the *benchmark* – No
5. Financial asset, including details at least for the	The Budget documentation analyzed does not contain information on the financial assets of the State, although some of this information is presented in the CGE (e.g. the

Element	Evidence analysis/Benchmark Compliance (Yes/No)
beginning of the year.	participation of the state in private companies, according to data provided by IGEPE). Compliance with the *benchmark* - No
6. Result of the previous year's budget, presented in the same format as the budget proposal.	The presentation of OE compared to the performance of the previous year is made only for the summary aggregates of revenue and expenditure based on the economic classification, and not for the other classifications (organic, programmatic, territorial and source of funds) used for the presentation of the OE. Compliance with the *benchmark* – No
7. The budget for the current year (the revised budget or the estimated performance), presented in the same format as the budget proposal.	The presentation of OE compared to the forecast for the current year's budget is made only for the summary aggregates of revenue and expenditure based on the economic classification, and not for the other classifications (organic, programmatic, territorial and source of funds) used for the presentation of the OE. Compliance with the *benchmark* – No
8. Summarized budget data for revenue and expenditure according to the main headings of the classification used, including data for the current and previous years.	The OE documentation includes a summary of the revenue and expenditure aggregates for the key categories within the economic classification within the Foundation Document accompanying the OE Proposal. These summary tables include a comparison with the expected execution of the current year's budget and the previous year. Compliance of the *benchmark* – Yes
9. Explanation of budget implications of new public policy initiatives, with estimates of the budgetary impact of all relevant changes in tax policies and/or some major changes to expenditure programmes.	The Foundation Document presents a summary overview and an explanation of the priorities related to budgetary policy (tax, expenditure and financing). Some specific policy actions to be implemented in each area are identified, although their budgetary impact is not specified. There is no quantification of the expected impact of the implementation of fiscal policy measures (such as, for example, the implementation of VAT on a net not gross basis or changes to tax rates or actions to strengthen tax administration and inspection). In terms of expenditure policy, the main priority actions are identified (p10), but without an explicit costing, with the exception of a sample of major projects contained in the Integrated Plan of Public Investments (PII 2014-17). Compliance with the *benchmark* – No

82. Based on the above analysis, the score for this indicator is "C," since three of the nine elements constituting the benchmark PEFA were achieved.

Comparison with 2010 assessment

83. The detailed analysis of the requirements of the methodology resulted in the assignment of a lower rating in comparison with the previous assessment. However, this may simply reflect a more detailed and precise application of the PEFA methodology (guided by the 2011 PEFA Fieldguide) rather than an actual deterioration in performance.

Prospects for the future

84. An analysis of Figure 8 above reveals clearly which are the areas that should be improved so that a better score might be obtained in future. In most cases, relevant and accurate data is available but it is not always presented in the Executive's Budget Proposal, or it is not presented in a way consistent with best international practice.

PI – 7: Extent of unreported government operations

<table>
<tr><th>Indicator</th><th>Dimension</th><th colspan="2">Assessment 2007</th><th colspan="2">Assessment 2010</th><th colspan="2">Assessment 2015</th></tr>
<tr><td rowspan="2">PI – 7: Extent of unreported government operations</td><td>(i) The level of extra-budgetary expenditure (other than donor funded projects) which is unreported i.e. not included in fiscal reports.</td><td>B</td><td rowspan="2">C+</td><td>B</td><td rowspan="2">B</td><td>A</td><td rowspan="2">B+</td></tr>
<tr><td>(ii) Income/expenditure information on donor-funded projects which is included in fiscal reports.</td><td>C</td><td>B</td><td>B</td></tr>
<tr><td colspan="8">Rating Method: M1</td></tr>
</table>

85. Annual budget estimates (OE), in-year execution reports (REOs) year-end financial statements and other budget reports should cover all budgetary and extra-budgetary activities of the central government to provide a complete picture of central government expenditure, revenue and financing. When an expenditure is executed outside of the Budget (OE) because it is financed through a fund or an extra-budgetary autonomous institute or through an external donor managing its projects outside of the OE system, at least an annual report of these extra-budgetary expenditures should be prepared (e.g. in the CGE). This indicator analyzes the relative importance of the central government operations which go unreported either as a result of limitations in the coverage of OE or flaws in the reporting systems for extra-budgetary operations.

PI-7 Indicator: 2015 Assessment

86. The autonomous institutes and funds of the Central Government fall under the joint tutelage of their respective sectors and of the MEF in order to ensure adequate monitoring of fiscal risks. Their planned expenditure is reflected in the OE tables: in the State Budget of 2015, budgets were included for approximately 60 institutes and funds. Most of these entities do not have financial autonomy (according to the SISTAFE Law, to be autonomous own revenues should cover at least two thirds of institutional budgets) and therefore cannot benefit from the exceptional arrangements for financial management outlined in Article 6 of the SISTAFE Law, in which case their budgeted expenditure would not need to be approved by the Legislature.

87. The CGE includes a table in its annexes for 30 autonomous institutions, which presents a summary of revenues (including budgeted subsidies received through the OE) and expenditures. The criteria for inclusion in this list (which includes the National Institute for Social Security – INSS) are not clearly stated (see also PI-9). Most of these autonomous institutions are also reflected in the budget tables (OE) as well as within the in-year expenditure reports (REOs)

88. Even though the list of all entities that comprise the public sector is not exhaustive (IMF, 2014, p7), particularly with respect to autonomous entities, the coverage of budget and financial reports (the OE, REOs, and the CGE) is broad and relatively comprehensive. This is confirmed by the assessment of the IMF, following the FTA (Fiscal Transparency Assessment) methodology, which states that the budget documents incorporate the revenue, expenditure and financing of the central government entities, extra-budgetary agencies and funds, assessing the completeness of the Budget as “good” (IMF, 2015, Fiscal Transparency Assessment).

89. Nevertheless, it is still not possible to obtain comprehensive coverage of the own revenues collected by public entities, and there is a perception that a modest but un-quantified proportion of this income is not declared and is used without fully observing the procedures laid down by law, particularly with regard to the phases of the expenditure cycle. This is also noted by the *Tribunal Administrativo* within the scope of their audit work.

90. This lack of compliance by some sectors with procedures for collecting, reporting and utilizing own revenues affects the subsequent declaration of these revenues, the correct classification by the Tax Directorates, their transfer to the CUT (Single Treasury Account) and their execution via e-SISTAFE. Some institutions have justified this practice by reference to the delays in the existing processes, and the consequent risk of resources not being utilised.

91. Based upon a recent health sector study on this issue, it has been estimated that the value of unreported own revenues is equivalent to 8 % of the own revenues declared and fully reported[9]. This would amount to 0.2 % of total expenditure. Thus, we conclude that despite the attention given to the issue of unreported own revenues, its significance in absolute terms is modest. Moreover, given that the health sector is notorious for the prevalence of these practices, this figure is probably an over-estimation, as such practices are not so generalised across other sectors.

Table 13: Reporting of Own Revenues, 2012 - 2014

OWN REVENUES (MZN 10^6)	OE initially approved	CGE Execution	Execution Rate
2012	3.122	3.264	105%
2013	3.812	3.987	105%
2014	3.302	5.223	158%
2012 -2014 growth	5.8%	60.0%	

Source: OE & General State Accounts (CGE) 2012, 2013 & 2014 (Amounts in Mt. Millions)

92. Furthermore, the MEF has made efforts to encourage the implementation of correct procedures for forecasting, budgeting, billing and accounting of own revenues, following the dissemination in 2010 of a circular on this matter. This has led to an increase in the level of reported collections of own revenues, as may be seen from Table 13. Between 2011 and 2014 an increase of 77% was recorded in the collection of Own Revenues.

93. Given these facts, we estimate that the level of unreported extra-budgetary expenditures by Central government institutions is less than 1% of total expenditure. Therefore for dimension (i) of this indicator, the rating "A" is accorded.

94. With regard to the off-budget projects financed by international cooperation agencies operating in Mozambique, whose financial information is not captured in any budget document, no information is available that can be considered as fully complete. For projects not registered in the budget, as is the case with most of the support provided by the US Government and the Health sector vertical funds, the information, in principle, should be available in ODAMOZ, a on-line database for reporting and monitoring of external assistance but this database was not available online at the time of the assessment.

9 Intellica (2013) for DFID/ MISAU, p.45.

95. However, SISTAFE reports are able to provide detailed information about the external projects which are on-budget, including those executed on-CUT, as well as off-CUT (by incorporating summaries of executed expenditures through journal entries). As may be seen from Table 14 below, approximately 70 % of the externally financed projects reflected in the budget documentation are still financed off-CUT (outside of the Single Treasury Account). The execution rates reported for these projects have been extremely variable (see the narrative text and the corresponding table for indicator D3.) In part, this is a reflection of the difficulties in ensuring the timely and accurate registration within the budget system of expenditure information for project executed off-CUT.

Table 14: Externally financed investment projects, as reported in the CGE, 2012 - 2014

	2012		2013		2014	
	Valor MZN 10^6	% do Total	Valor MZN 10^6	% do Total	Valor MZN 10^6	% do Total
INVESTIMENTO EXTERNO	28.530	100%	38.288	100%	41.662	100%
Donativos	21.537	75%	25.482	67%	12.449	30%
Fundo Comuns	8.531	30%	7.579	20%	8.119	19%
Projectos on-CUT	918	3%	973	3%	1.337	3%
Projectos off-CUT	12.088	42%	16.931	44%	2.993	7%
Créditos	6.993	25%	12.806	33%	29.213	70%
Projectos on-CUT	847	3%	979	3%	1.244	3%
Projectos off-CUT	6.146	22%	11.827	31%	27.969	67%

Source: Mapa 16 of the CGEs, 2012-14

96. Despite the difficulties of obtaining timely and accurate information for projects which are executed off-CUT, on the basis of the available evidence, which can be obtained from the CGE and from the annual assessment report of Cooperation Partners prepared by MEF, we estimate that all loan financed projects and more than half of the grant financed projects are reported in the budget documentation. This was also confirmed in interviews with MEF and with Development Partners. On this basis, the rating for dimension (ii) is a "B", giving an aggregate score of “B+” for this indicator.

Comparison with 2010 assessment

97. The fact that the first dimension of the indicator has shown an improvement over the previous assessment positively influenced the performance indicator as a whole. This was due to two developments: firstly, the improved recording of own revenues within the three-year period under review, and secondly a more systematic incorporation within the CGE of the trial balances (‘balancetes’) which the autonomous and semi-autonomous institutions of Central Government entities are required to provide under their accounting obligations.

Prospects for the future

98. The performance in a future assessment may improve if improved data on externally funded projects becomes available, either through studies and surveys, or by the periodic publication of reports, or through the

revitalization of the ODAMOZ data-base. The quality of reporting on autonomous and semi-autonomous Central Government institutions will also need to be maintained or improved.

PI – 8: Transparency of Inter-Governmental Fiscal Relations

Indicator	Dimension	Assessment 2007		Assessment 2010		Assessment 2015	
PI – 8: Transparency of Inter-Governmental Fiscal Relations	(i) Transparent and rules based systems in the horizontal allocation among SN governments of unconditional and conditional transfers from central government (both budgeted and actual allocations).	**A**	C+	**A**	**B**	**A**	**B**
	(ii) Timeliness of reliable information to SN governments on their allocations from central government for the coming year.	**C**		**C**		**C**	
	(iii) Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to sectoral categories.	**D**		**C**		**C**	
Rating Method: M2							

PI-8 Indicator: 2015 Assessment

99. Currently, there are 53 autonomous municipalities (‘*autarquias*’) in Mozambique, and there was a significant increase in the numbers of municipalities in recent years, with the creation of 10 new municipalities in 2008 and 20 in 2013. The central Government budget transfers to municipalities consist of the allocation for the Municipal Compensation Fund (FCA – *Fundo de Compensação Autárquica*), which serves to support the running costs of the municipalities; the Municipal Investment Fund (FIA – *Fundo de Investimento Autárquico*) and allocations under the Strategic Program for Urban Poverty Reduction (PERPU). In addition, the municipalities benefit from a share of the Road Fund.

100. The allocation of the FCA and FIA is based on transparent criteria established in Law N.º 1/2008. Under these criteria, annual allocations must correspond to 1.5% of tax revenue for the FCA and 0.75% for the FIA, while the allocation to each municipality is based on the population level (75%) and territorial area (25%).

101. The PERPU consists of a fixed amount of 140 million MZN for the establishment of a revolving fund for the provision of loans to various projects for employment and social protection. The fund is divided among 11 urban municipalities, and 55% of the resources are allocated on a fixed basis, with the remainder based on the extent of the urban territory (10%), population (40%), urban poverty (40%) and collection of revenues (10%). The Road Fund allocates funding based on criteria related to the density of the network of municipal roads and the type of municipality (Source: World Bank, Public Expenditure Review 2014).

102. The clarity in the criteria for allocation of transfers to the sub-national level will render the highest score ("A") to this indicator already achieved in the last PEFA assessment.

103. According to Law N.º 1/2008, which sets the financial, budgetary and patrimonial regime of local authorities and the municipal tax system, the budget of municipalities is prepared and submitted to the ministry responsible for

the finance area in July and is discussed and approved by the Municipal Assemblies only in November. Field visits confirmed that the proposed budget is based on a projection of own revenues to be collected and anticipated transfers from the State Budget, based on the amount received in the previous year.

104. Due to the predictable nature of the criteria underlying the calculation of transfers, the projections do not tend to deviate much from the actual value. Such deviations are driven mainly by short-term changes in tax revenue projections and by the creation of new municipalities (which reduces the overall amount available to each authority through the FCA and the FIA).

105. After the approval of the State Budget by the Parliament in December, local governments revisit their budgets based on the approved value of transfers to be received, which is communicated by MEF in December. In principle, the municipalities could base their programming on the amounts stated in the Executive's Budget Proposal as submitted to the AR. This is provided by DNO on its website in September and the amounts of transfers proposed therein do not vary widely with respect to those incorporated (in December) in the approved OE.

106. The process of drafting of the CFMP (see PI-12) could also serve as a mechanism to provide a formal indication in May/June to the municipalities of the anticipated ceilings for central government transfers, based on more updated projections of the tax revenue (rather than simply on the previous year's figures). However, this does not happen currently, and adjustments to the initial budget approved by the Municipal Assembly in November are only considered after the notification by the MEF in December of the final ceilings.

107. Therefore, the score for this indicator is maintained at "C" since it does not comply with the good practice to provide reliable information on the allocations to be transferred to each municipality, before the beginning of the detailed budgeting process by the Municipal Councils. The notification of transfer values happens after the approval of the Municipal Budget, despite the prior availability of reliable estimates in September, at the time of the adoption of the Executive's Budget Proposal by the Council of Ministers.

108. Regarding dimension (iii), reports with financial information for each municipality are sent to the MEF on a quarterly basis, and this is duly consolidated. However, not all municipalities comply with the submission deadlines and the quality of reports has varied considerably.

109. There is also aggregate information on the flow of revenue and expenditures, and the initial and final financial position of each municipality is published in the annexes of the CGE. The consolidated financial information on the Municipalities is therefore available in May, which is 5 months after closure of the financial year. The information is presented using the economic classification, consistent with the summarized classification used in the OE, but more summarized.

110. The Annex does not report detailed information on revenue and expenditure by sectoral or functional classification. This is in part because the process of decentralization of primary health and education services provided for in the law on transfer of competences (and resources) of the Central Government to local authorities is still in the early stage of development.

111. It is considered that there is regularity and consistency in the way that information on spending of local authorities is presented, but without detailing the expenditure by sector categories, which maintains the scope at "C" .

112. Still, it is noteworthy to mention that at the aggregate level, the local level spending has represented on average only about 2% of total expenditure over the past three years. Moreover, the competences to provide sectoral services have not yet been transferred to the municipalities, thus not justifying significant changes to the budget classifications of municipalities to allocate their spending by sector.

Comparison with 2010 assessment

113. The situation remained unchanged in the period under review.

PI – 9: Oversight of aggregate fiscal risk from other public sector entities

Indicator	Dimension	Assessment 2007		Assessment 2010		Assessment 2015	
PI – 9: Oversight of aggregate fiscal risk from other public sector entities	(i) Extent of central government monitoring of AGAs and PEs.	C	D+	C	D+	C	C+
	(ii) Extent of central government monitoring of SN governments' fiscal position.	D		D		A	
Rating Method: M1							

114. The central government should have a formal supervisory function over other public sector bodies and should monitor and manage fiscal risks with national implications arising from activities of sub-national levels of government (municipalities), autonomous government bodies (funds, institutions, etc.) and public enterprises (PE)/ (State Owned Enterprises). The central government can also, for political reasons, be obliged to assume responsibility for financial default of other public sector bodies, where there is no formal supervision responsibility. The PI-9 indicator measures the effectiveness of central government monitoring of the fiscal risk.

115. To comply with these functions, international good practice indicates that the central government should demand and receive quarterly financial reports and annual audited accounts from the Public Enterprises (State Owned Enterprises) and the autonomous agencies to monitor performance against financial targets and monitor potential fiscal risks. The EP and the autonomous agencies usually report to their supervising ministries but it is important for the MEF (or other relevant central agency) to consolidate this information so as to have a vision and an understanding of the aggregate fiscal risk of the central government. In situations where sub-national governments are able to generate financial obligations for the central government, their fiscal position should also be monitored at least annually, again with the essential financial information being consolidated centrally.

PI-9 Indicator 2015 Assessment

116. According to the PI-7 analysis, in general, it can be considered that the budget documents are comprehensive with respect to central government operations (according to the broader definition of central government

including the funds and institutes, considered part of the “indirect administration” of the State in Law N.º 07/2012). At the same time, even though the revenue and expenditure of the autonomous entities are reflected in budget documents, assets and liabilities arising from the operations of these entities are not reported, which can be a source of fiscal risk if not properly monitored, in particular in the case of the National Institute of Social Security (*INSS*).

117. As seen in the Fiscal Transparency Report, published by the IMF in 2014, significant challenges remain for the identification and management of fiscal risks, which tend to increase in the medium and long term in line with the development of the Mozambican economy. The report concludes that such risks are mainly associated with the following factors: high dependence on external financing; exogenous shocks (natural disasters); activities of Public Enterprises; obligations under multi-year contracts for the construction of major infrastructure (e.g. concessions and Private Public Partnerships); state guarantees issued for foreign debts of Public Enterprises; contingent liabilities deriving from quasi-fiscal activities (e.g. price subsidies), and participation of the state in private companies (at present managed through the IGEPE). Other medium and long-term risks are associated with the volatility of natural resource prices since the mining industry in the country is expanding, especially for the production and export of liquefied natural gas and coal.

118. The CGE provides summary information about the income and expenditure of autonomous agencies, Municipalities and Public Enterprises (*EPs*), which are required, by law, to submit their financial and audit reports to the MEF as well as to publish their accounts on an annual basis. In practice, this information is not sent to the MEF in a systematic manner and within the time limits provided for the autonomous entities (e.g. INSS) and the EPs (there are currently 13 EPs, 7 of which receive subsidies from the State Budget due to their deficits). It should be noted that while the external reporting requirements and accountability to MEF for the EPs are clearly defined by law, the same cannot be said for the other autonomous entities.

119. Regarding the Public Enterprises (*EPs*), it should be highlighted that there has been progress through the approval of Law N.º 6/2012 on the legal regime of the EPs (replacing Law N.º 17/91). The new law regulates the mode of creation, and the monitoring and operating regimes for the EPs, placing greater emphasis on financial supervision by the MEF to prevent fiscal risk; and the requirements regarding reporting to the supervisory bodies and standards in financial transparency are quite demanding (e.g. they include a requirement to publish audited accounts and performance reports on the Internet).

120. In relation to the management of fiscal risks arising from the Public Enterprise Sector and other entities that are part of the "General Government" (in the GFS terminology used by the PEFA methodology), it is apparent most major EPs and autonomous agencies submit fiscal reports to MEF on an annual basis. However, it has not been possible for MEF to consolidate annual information about fiscal risks in a single document, although it is planned to draw up a preliminary *Fiscal Risk Statement* in 2015 with technical assistance from the IMF. As a result, the rating for this first dimension of the indicator is a "C".

121. Regarding the Central Government Monitoring of the Local Government, it is noteworthy that according to the provisions of Law N.º 1/2008, multiannual loans can only be authorized by the MEF, local authorities can only borrow at short term to manage occasional shortages of cash, up to a limit of three twelfths of the value

of the annual FCA transfer received. We also note that the average level of spending by municipalities (autarquias) over the past three years has been about 2 % of total public expenditure.

122. For the second dimension, the score is "A" since the Sub-National Government, in other words, the municipalities, cannot generate debt liabilities with repercussions for the Central Government without the explicit permission of the Minister of Finance. Since the scoring methodology is based on the concept of the weakest link, the aggregate score for this indicator is hence a "C+".

Comparison with 2010 assessment

123. The situation regarding the possibility of indebtedness of local governments has remained unchanged, this being clearly prohibited by law, subject to the very minor exceptions foreseen in the same law. Sub-national debt can only be incurred if authorized by MEF, which implies a tight control of the financial situation of these institutions.

124. On the other hand, there was a legal breakthrough in the mitigation of fiscal risks through the approval of Law N.º 6/2012 on the legal regime of the EPs (replacing Law N.º 17/91) and of Law N.º 15/2011 and the related Regulation (Decree N.º 16/2012), which regulates the process of contracting, implementing and monitoring of projects under PPP arrangements, large scale projects and commercial concessions. For example, the new law contains, among others, specific provisions relating to the preparation of pre-feasibility studies, the launching of public tenders and the control of conflicts of interest.

Prospects for the future

125. The score for this indicator could be dramatically improved if all of the EPs were to start submitting regular six-monthly reports and annual audited accounts to the DNT, thus enabling this National Directorate to prepare an annual consolidated assessment of fiscal risk. The preliminary *Fiscal Risk Statement,* planned to be prepared in 2015 with technical assistance from the IMF, will be a first step in this direction. Draft legislation for the Public Enterprise Sector is also in preparation and the implementation of the same may also positively influence the future evaluation of this indicator

PI – 10: Public access to key fiscal information

Indicator	Dimension	Assessment 2007	Assessment 2010	Assessment 2015
PI – 10: Public access to key fiscal information	(i) Number of the above listed elements of public access to information that is fulfilled (in order to count in the assessment, the full specification of the information benchmark must be met).	**B**	**B**	**B**

PI-10 Indicator: 2015 Assessment

126. The rating for this indicator is based on the analysis illustrated in the figure below, which shows that four of the six essential elements, in terms of public access to fiscal information, are available. Consequently, the rating is a “B”.

Figure 9: Public access to budgetary information (PI-10)

#	Element	Publicly available (Yes/No) and comments
i.	Documentation of the annual budget: the public can access a full set of documents by appropriate means when this set is sent to the legislature.	Yes Foundation Document and OE proposal Tables available online (on the DNO's website) in October, following the approval by the Council of Ministers and subsequent submission to AR
ii.	Budget execution reports during the year: Reports are regularly made available to the public through appropriate means within one month after completion.	Yes Online available quarterly REOs (on the DNO's website) within 45 days after the end of the quarter
iii.	Year end financial statements: The statements are regularly made available to the public through appropriate means within six months after the completion of the audit.	Yes Online available CGES (on the DNO's website) after its approval by the parliament (within 6 months after the issuance of the opinion and report of the Administrative Court).
iv.	External audit reports: All reports on central government consolidated operations are made available to the public through appropriate means within six months after the completion of the audit.	Yes Reports and TA Opinions available online (in the institution page) after approval by AR
v.	Contracts Grants: The awarding of all contracts worth more than about US$ 100,000 are published at least quarterly through appropriate means.	No Information about contracts is not available in a systematic, comprehensive and regular basis in the Procurement Portal (and some information can be achieved from the award notices published in the Newspaper) and by means of a request to UFSA
vi.	Resources available to primary service units: The information is published through the appropriate means at least once a year, or available upon request, for primary service units with national coverage in at least two sectors (such as elementary schools or primary health clinics).	No At the moment, thousands of schools and primary health services have not been constituted as budget units and have no administrative ability to perform the procedures in SISTAFE: they are therefore not allocated budgets of their own. Therefore, these units correspond to cost centers linked to the respective Budget Executing Units (UGE - usually the Provincial Directorates or the district education/health services). Thus, information on the funds received are aggregated in different UGEs according to their association. Also, it should be noted that many of the resources needed to provide services in schools and hospitals, are delivered in kind, by higher administrative levels from where procurement and distribution are managed (e.g. school books, medicines and hospital equipment).

Comparison with 2010 assessment

127. No major change was observed in comparison with the previous assessment.

Prospects for the future

128. In a general sense, a large volume of data on PFM is generated in an automated and regular manner by e-SISTAFE and other Public Financial Management (PFM) systems, both computerized and manual. At the same time, the formats and modalities in which the same are analyzed and presented in the budget reports could be improved in order to facilitate and encourage members of the public not specialized in public finance matters to gain knowledge of the most relevant information to ensure accountability in the public resource management.

129. At the same time, we note the positive improvements in budget transparency evidenced by other internationally accepted methodologies, such as the improvement in the scores and ranking of Mozambique in the Open Budget Index (OBI) between 2010 and 2012 (from 28 to 47 points over 100, and 68th to 55th place among 100 countries in terms of its position in the ranking of the Open Budget Index). Another aspect to be noted is the elaboration in each of the three years analyzed, of the "Citizens' Budget", a short informative document which summarizes the OE data in a more accessible format to the general public (the document is available on the website of DNO).

4.4. Policy Based Budgeting

130. PI-11 and PI-12 are indicators that seek to measure the existence and functionality of the annual budget preparation process, assessing whether the budget is prepared strategically, giving due consideration to medium-term policies and to aggregate budgetary constraints.

PI – 11: Orderliness and participation in the annual budget process

Indicator	Dimension	Assessment 2007		Assessment 2010		Assessment 2015	
PI – 11: Orderliness and participation in the annual budget process	(i) Existence of and adherence to a fixed budget calendar.	A	B+	A	B+	A	B+
	(ii) Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent).	A		A		A	
	(iii) Timely budget approval by the legislature or similarly mandated body (within the last three years).	C		C		C	
Rating Method: M2							

PI -11 Indicator: 2015 Assessment

131. There is not a single, harmonized calendar of all procedures relating to planning and budgeting cycles, two calendars having been produced respectively by the Ministries of Planning and Finance (merged into a single entity since January 2015) - one for the establishment of the budget, another for the preparation of planning instruments. However, the budget preparation calendar is known and always respected[10] (see Figure 10 below for a summary of the main stages). The UGBs have enough time (minimum six weeks) to upload their detailed budgets directly into the integrated module for the preparation of OE in e-SISTAFE (MEO). These facts justify the attribution of an "A" to this first dimension.

132. A comprehensive and clear Budget Circular is drafted annually by DNO and is distributed to the sector ministries and provinces, who in turn have to coordinate with their respective UGBs. This Circular is accompanied by detailed methodologies, including a guide to the completion of budgetary tables, guidance on the preparation of proposals for the annual PES and OE and indicative expenditure ceilings for goods and

[10] This was independently confirmed to the assessment team by each of the Directorates of MEF and by the three sector ministries and agencies, who were interviewed in detail.

services and to domestic investment (thus excluding salaries and externally financed investments.) These documents are detailed and comprehensive, and are also available on the website of the DNO, giving more transparency to the process. Budget ceilings are approved by the Council of Ministers prior to their inclusion in the circular and prior to their incorporation as the formulation ceilings within the MEO (*Modulo de Elaboração Orçamental*) of e-SISTAFE. Therefore, the rating for this dimension is also an "A".

133. With the exception of the 2015 Budget, in the three preceding years, the OE have been approved by the Legislature (AR) within the specified time limits, enabling the start of budget implementation to match the start of the fiscal year, in other words, January. However, because in 2014 there were General Elections, the State Budget for 2015 was only approved in May 2015 – a delay of five months. Due to this circumstance, the rating is "C", given that only in 2 of the past 3 years has the Budget been approved within two months of the start of the fiscal year. The aggregate score for this indicator is therefore "B+".

Figure 10: The Annual Budget Formulation calendar

Month	No. of Weeks	Activity
December (year n-1)	4	Elaboration and dissemination of the methodology for the preparation of the CFMP (MTFF)
April	4	Preparation of macro-fiscal projections, providing technical/methodological assistance to sectors/provinces by MPD/MF and preparation of the CFMP document
May	2	Drafting of the CFMP document (with provisions, from 2014, of the Integrated Investment Plan)
May	3	Approval of global CFMP limits by the Council of Ministers (CoM)
May	4	Issue of letters (Circular) MF/MPD and methodologies and PES/OE drafting guidelines to sectors (ministries) and provinces (Provincial Governors), accompanied by disclosure of the overall limits of the approved CFMP (for goods and services and internal investment)
June	3	Coordination at the sectors, provinces and districts level for the distribution of limits between tutored/subordinate UGBs
July	1	Uploading of the indicative harmonized limits in e-SISTAFE in MEO by DNO, opening of the system and detailed OE typing in the MEO by each UGB
August	2	Harmonization meetings of the DNO with the sectors, provinces, IMF (adjustments to the proposal due to the resource envelope upgrading and compliance of the commitments of the Cooperation Partners)
August	4	Globalization of data and harmonization with the Budget Equilibrium "Mapa de Equilibrio" Table (DNO)
September	2	OE submission to the CoM for approval (Min. of Finances)
September	4	Submission of the PES/OE by the Prime Minister's Office to RA
December	2	PES/OE approval by the AR. Publication of the OE in the Government Gazette as law.

Source: adaptation from the budget preparation calendar (DNO) and the planning cycle, monitoring and evaluation (DNP), supplemented by information gathered in meetings with DNO, DNP and DNEAP.

Comparison with 2010 assessment

134. Based on the information presented above, and considering that the budget preparation procedures have not changed significantly compared to the last assessment, the score for this indicator is B+, in line with the PEFA

assessment carried out in 2010 (when the score for component (iii) was also influenced by the holding of general elections in October/ November of the previous year.

Prospects for the future

135.It should be noted that since the electoral calendar was not aligned with the budget calendar, the lower ratings generally occur in cases in years with general elections. That was the case of the 2014 elections that resulted in a delay of five months compared with the timetable set, and the 2009 elections resulted in a delay of three months in the approval of the budget. These fluctuations in rating will continue to happen as long as this discrepancy persists in the two calendars.

PI – 12: Multi-year perspective in fiscal planning and budgeting

Indicator	Dimension	Assessment 2007		Assessment 2010		Assessment 2015	
PI – 12: Multi-year perspective in fiscal planning, expenditure policy and budgeting	(i) Preparation of multi-year fiscal forecasts and functional allocations.	**C**	C+	**C**	C+	**C**	C+
	(ii) Scope and frequency of debt sustainability analysis.	**A**		**A**		**A**	
	(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure.	**C**		**C**		**C**	
	(iv) Linkages between investment budgets and forward expenditure estimates.	**D**		**D**		**D**	
Rating Method: M2							

PI-12 Indicator: 2015 Assessment

136.Mozambique's CFMP is one of the key planning instruments within the budget preparation cycle. It gives the formal framework for the development of the macroeconomic strategy and the short and medium term sector planning that has its legal basis set out in Article 45 of the SISTAFE Law. The objective of the CFMP is to define the indicative expenditure limits (budget ceilings) for a period of three years to be then communicated to the stakeholders (ministries, departments and agencies) to guide their planning and budgeting processes. This indicator enables the analysis of the quality of the CFMP based on the dimensions and criteria of PEFA methodology. Figure 11 below outlines our rating for each dimension.

Figure 11: Multi-year perspective in fiscal planning, expenditure policy and budgeting (PI-12)

Dimension	Rating	Evidence and comments
(I) Multi-year fiscal forecasts and functional allocations	C	The rolling CFMP has been developed systematically by the MPD, and has been regularly submitted to the CoM (except 2014). In the document, aggregated revenue, expenditure and funding projections are presented according to the macro-fiscal framework. However, variations in sensitivity tests are not presented in the macroeconomic assumptions nor explicit medium term fiscal targets since there is also no explicit integration of financial projections with the debt strategy and sustainability analysis. From 2013, the first steps were taken with the development of an Integrated Investment Plan (PII) and the introduction of a structured process of systematic evaluation of major projects with the aim of more rigor in their selection. For example, a manual for the evaluation and selection of investment

		projects was adopted. Up to the time of budget preparation, aggregate expenditure ceilings tend to change frequently until the definition of the underlying Fiscal Table to the budgetary programming, and as resulting from the data analysis presented in Table 15, the variations in relation to the OE approved ceilings are significant, and there is no justification presented for this deviation in the fiscal and budgetary documents..
(Ii) Scope and frequency of debt sustainability analysis	A	The Debt Department of the National Treasury Directorate, with some technical assistance from the IMF (the IMF methodology is used) conducts annually an analysis of internal and external debt sustainability. Furthermore, annual debt plans and debt reports are available.
(Iii) Existence of funded sector strategies	C	Sectoral strategies exist for most of the larger sectors, but these tend to cover periods inconsistent with the 'macro' planning instruments. On the other hand, the terminology and classifications used are not always consistent with the guidelines and methodologies in place. Of the three sectoral strategies analyzed - Agriculture, Health and Education, two include a budget (but following different approaches). Therefore, there is no clear link with the aggregate macro-fiscal projections contained in the CFMP.
(Iv) Association between investment budgets and multi-year expenditure estimates	D	Despite the recently introduced innovations, including the introduction of PII with explicit association to the CFMP and OE, the installation of an Project Evaluation and Selection Committee , as well as the preparation of technical/methodological support manual, there are still challenges in ensuring full coherence between sectoral strategies, the CFMP, PES and their financial expression, the OE. Especially regarding the estimated implications of investment projects on recurrent expenditures in the OE, the impact of capital expenditures on operating costs (eg through operation and maintenance costs of major investment projects) is not included in the medium and short term budgetary projections.

Table 15: Comparison between the CFMP, OE and CGE, 2012 - 2014

		2012							2013							2014						
		Func.	Invest.	Despesa Total	Receita do Estado	Donativos	Receita Total	Saldo após donativo	Func.	Invest.	Despesa Total	Receita do Estado	Donativos	Receita Total	Saldo após donativos	Func.	Invest.	Despesa Total	Receita do Estado	Donativos	Receita Total	Saldo após donativos
2012-2014	CFMP	83.129	65.249	153.128	93.494	33.844	127.338	25.790	89.164	72.078	169.286	108.955	34.061	143.016	26.270	100.541	78.500	186.556	126.907	35.303	162.210	24.346
	OE	84.138	56.517	163.035	95.537	34.718	130.255	32.780														
	CGE	83.804	53.457	142.430	98.477	27.332	125.809	16.621														
2013-2015	CFMP								95.475	71.979	181.200	111.372	37.786	149.158	32.042	109.867	79.283	201.472	129.641	39.666	169.307	32.165
	OE								105.530	69.425	174.955	113.962	19.811	133.773	41.182							
	CGE								95.655	72.301	178.520	126.319	30.233	156.552	21.968							
2014-2016	CFMP															112.607	68.999	190.212	127.333	21.581	148.914	41.298
	OE															115.271	100.770	240.891	147.372	30.402	177.773	63.118
	CGE															118.469	87.036	222.019	156.336	24.106		

Source: CFMP, OE and CGE (2012-14)

Comparison with 2010 assessment

137. The score is unchanged since 2010 and many of the flaws identified both in 2007 and in the last PEFA assessment still remain.

Prospects for the future

138. Despite recent efforts to harmonize terminology between the PES and the OE, the programmatic classifier still does not represent an effective link between the various existing planning tools and the CFMP and OE. In addition, there are contradictions in the reconciliation process between the territorial and sectorial perspective, as well as the more significant problem that the sectoral proposals for the CFMP, (bottom up) are not effectively reconciled with the forecast of resources available (top down), undermining the credibility of the CFMP as a strategic resource allocation tool.

139. This could be avoided if there was a more structured process for the review and discussion of high-level public policy options between the sectors and the MEF. This could potentially result in a process of policy prioritization, which would be transparent and credible (by engaging the political level from the outset in the planning process), while also leading to the definition of the main programmes and projects to be implemented in the medium and short term before undertaking the detailed elaboration of the annual budget. (In some countries, this process of strategic prioritization is done through the publication and discussion of a "Budget Options Paper").

140. Institutional fragmentation has been another source of weakness in the strategic planning and budgeting process. The separation, into different portfolios, of responsibilities that in practice have to be shared, has undermined the effectiveness of the macro-processes of the PFM system (the CFMP, PES and the OE) due to the inevitable difficulties of coordination and harmonization between separate organizations.

141. With the planning and budget directorates now united in one single ministry, there is an opportunity firstly to revitalize the role of the CFMP as the link between public policies, plans and budgets; secondly to rationalize the number and strengthen the alignment between existing planning instruments, and thirdly to strengthen the role of the programmatic classifier as a potential tool of integration between processes of planning, budgeting, implementation and monitoring. These steps would all serve to strengthen the relationship between expenditures and results.

142. There are measures in place to begin to address some of these identified weaknesses. For example, a new e-SISTAFE module is currently under preparation, which aims to strengthen the linkages between planning and budgeting. As part of this process, a conceptual model of the Planning & Budgeting Sub-System has been developed. Nevertheless, significant challenges remain to address the institutional, human and technical weaknesses which undermine the existing systems of multi-year budgeting and planning.

4.5. Predictability and Control in Budget Execution

143. Indicators PI-13 to PI-21 are concerned with the systems and processes through which the budget is executed. They assess the current status of processes of revenue collection and administration (PI-13 to PI-15), commitment control, cash and debt management (PI-16 and 17) existing systems for internal control over payroll, procurement and non-salary expenditures (PI-18 to PI-20), and Internal Audit (PI-21).

PI – 13: Transparency of Taxpayer Obligations and Liabilities

Indicator	Dimension	Assessment 2007		Assessment 2010		Assessment 2015	
PI – 13: Transparency of Taxpayer Obligations and Liabilities	(i) Clarity and comprehensiveness of tax liabilities.	B	B+	A	A	A	A
	(ii) Taxpayer access to information on tax liabilities and administrative procedures.	A		A		A	
	(iii) Existence and functioning of a tax appeals mechanism.	B		A		B	
							Rating Method: M2

PI-13 Indicator: 2015 Assessment

144. The Mozambican tax system was significantly reformed in 2002, with the approval of the General Tax Law (Law N.º 15/2002) which establishes the principles of the organization of the system, defines the guarantees and obligations of the taxpayer and the tax administration, determines the basic procedures for assessment and collection of taxes and establishes the rules for tax offenses. Tax exemptions and benefits are regulated in one legal provision, Law N.º 4/2009 which approves the code of tax benefits.

145. The new tax system is structured around the concept of separate taxation of consumption, income and assets, and the main taxes in terms of collection are thus the IVA, IRPC and IRPS, whose Codes and Regulations were introduced in 2007 and 2008 respectively. These documents explain in a clear, detailed and comprehensive manner the procedures and forms necessary for the compliance with these tax obligations, which currently account for more than two thirds of total revenue.

146. With the approval of Law N.º 1/2006, the Mozambique Tax Authority (*Autoridade Tributaria* - AT) was created in order to centralize the collection and administration of all state revenue in a single entity responsible for managing internal and external national taxes (local taxation being governed by the Municipal Tax Code, approved by Decree N.º 63/2008). Another important milestone is represented by the approval of Law N.º 2/2006 laying down the general principles and norms of the judicial framework for the tax law.

147. An analysis of the legal framework for these three principal taxes was undertaken by the World Bank as part of the 2014 Public Expenditure Review. It confirms that overall the design of IVA, IRPC and IRPS is adequate and consistent with international norms. In particular, it does not identify any specific concerns relating to the degree of administrative discretionality in the assessment of taxes owed or in the definition of applicable fines. On the other hand, the analysis does point to problems of efficiency in the tax collection process and to the continuing challenges presented by the administration of these taxes, notably in relation to the management of refunds of value added tax (IVA).

148. To summarise, the Constitution, the General Tax Law (Law N.º 15/2002) and the related regulations and guidelines, which together provide the legal framework for the definition and administration of the main tax instruments, specify in a clear, detailed and comprehensive manner the rights and obligations of tax-payers and limit the degree of discretionality which may be applied by those entities responsible for assessing tax obligations. Therefore, the score for dimension (i) of this indicator remains an "A".

149. The vast majority of the information on the obligations and rights of taxpayers is publicly available online (in particular on AT's website). Amongst other things, the site provides information on the main Laws, Decrees and Instructions relating to the principal taxes, as well as the related administrative procedures. In addition to information on the tax codes and regulations for VAT *(IVA),* IRPC and IRPS, AT's website includes information on the Simplified Tax for Small Taxpayers (ISPC) and on the Framework of Tax Benefits (Código de Benefícios Fiscais.)

150. With regard to customs information, the latest legislation is available, giving details for example on customs duties (*a pauta aduaneira*), the tax codes for goods for own consumption and procedures for customs clearance and inspection. Also available on-line are formats for tax declarations and models for the calculation of IRPS obligations and for the estimation of customs´s imports duties .

151. The effort to bring tax collection closer to the taxpayer has been visible in AT's strategies and plans, for example, through the expansion of tax collection offices, which currently a total of 101 units, including four Large Taxpayers' Units - *UGC* (in Maputo, Beira, Nampula and Matola). During the period under analysis, Taxpayer Customer Service Counters (*BAC - Balcões de Atendimento ao Contribuinte*) were also created and at present 11 BACs are fully operational (one in each province of the country). Taxpayer assistance is also provided through AT's representation in 17 "One-Stop Shops" created by the Ministry of Industry and Commerce throughout the country, where for example the Unique Tax Identification Number (NUITs) can be registered (see PI -14 for more detail).

152. In addition, in recent years the AT has intensified throughout the entire country (including Districts) the implementation of awareness activities on voluntary compliance with tax obligations, with a view to facilitating

the dissemination of information to taxpayers without internet access. Within the AT, there is a specific Department dedicated to communications and public relations, which is responsible for organizing various tax/ customs education and “tax popularization" campaigns ", using social media and organizing events where assistance is provided to the taxpayer and where informative material is distributed (e.g., guides, manuals and brochures). In addition, since 2014, a *Call Centre* has been functioning to support the taxpayer and consultation seminars are regularly organized in liaison with entities such as CTA (the Forum of Private Sector Organisations), in order to understand the perspectives and concerns of the private sector.

153. Therefore, dimension (ii) also scores an "A" due to the evidence presented on the access of taxpayers to information on tax liabilities and administrative procedures. Improvements in this area have also contributed to the success of the AT regarding the registration of new NUITs (Unique Tax Identification Numbers) and the gradual expansion of the tax base. (See PI-14 for more details.)

154. Procedures regarding complaints and tax litigation processes are also clearly defined in the Act (including the time required for each procedure). The General Tax Law provides for the review of decisions taken by the Tax Authority through the possibility of appeal by taxpayers to the Administrative Court (*TA – Tribunal Administrativo*), which has a judicial nature and therefore acts as an independent body.

155. Initially, the taxpayer may claim directly from the Tax Directorate, whose decisions may still be subject to administrative appeal. In a second phase, an appeal can be filed at the Tax Court (*Tribunal Fiscal),* which is a judicial entity as also is the Administrative Court (*TA – Tribunal Administrativo*) which is responsible for the final decision.

156. Thus, there is an appeal body within the tax administration and justice system, composed of three levels. If a complaint cannot be satisfactorily resolved by the AT and its sub-units, the Tax Court comprises the court of first instance, followed by the 2nd Section (*2ª Secção*) of the Administrative Court *(TA)* and ultimately by the plenary of the same Administrative Court *(TA).*

157. Since 2009, the year in which Tax Courts (*Tribunais Fiscais*) were introduced, access to justice through an appeals mechanism, as briefly described above, has been assured by an independent institutional structure. A recent evaluation of Fiscal Transparency by the IMF confirms the existence of appropriate mechanisms for the taxpayer for complaints and for appeal against tax decisions, so as to ensure fair and independent treatment.

158. Nevertheless, there is still a lack of detailed information, from which to assess the effectiveness and the degree of accessibility of the mechanisms for resolution of disputes. According to a recent report on the tax system in Mozambique, based on a pilot application of the *Tax Administration Diagnostic Assessment Tool* – TADAT, it is for example not possible to assess the time required for the resolution of disputes nor to monitor to which extent administrative decisions in respect of disputes have been implemented. This is due to the lack of systems for collecting this information on a comprehensive and systematic basis.

159. We judge therefore that a tax appeals system of transparent administrative procedures is completely set up and functional but it is too early to assess its effectiveness with the available information. Hence, dimension (iii) scores a "B", leaving an “A” score for the indicator as a whole.

Comparison with 2010 assessment

160. The overall situation, with regard to the transparency of taxpayer obligations and liabilities remains unchanged. There has been a drop from “A” to “B” in the score assigned to dimension (iii) but this simply reflects a greater rigour in the assessment process, following the stipulations in the 2011 PEFA Field Guide.

PI – 14: Effectiveness of measures for taxpayer registration and tax assessment

Indicator	Dimension	Assessment 2007		Assessment 2010		Assessment 2015	
PI – 14: Effectiveness of measures for taxpayer registration and tax assessment	(i) Controls in the taxpayer registration system.	B	B	B	A	B	B
	(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations.	B		A		B	
	(iii) Planning and monitoring of tax audit and fraud investigation programs.	B		A		B	
Rating Method: M2							

PI-14 Indicator: 2015 Assessment

161. The *Autoridade Tributaria (AT)* has registered a total of 3.2 million taxpayers, including individuals and companies. However, of these only a small part are considered “active” contributors (for example, only 4% of the 625,000 new tax-payers registered in 2014 were considered “active”.)

162. The taxpayers' database is maintained and updated according to the NUITs, and on this same basis, the registration of contributors and the authentication of tax declarations and payments is made in the Interim Revenue Collection System (*SICR: Sistema Interino de Cobrança de Receita)* - the IT system which currently supports the processes of revenue management and administration. Among other functions, the NUIT register is used for the submission of tax declarations, the payment of taxes, and the reporting of the start and termination of economic activities, opening of subsidiaries and any change of information on companies and individuals.

163. The recent TADAT assessment found weaknesses with respect to the processes of verification and audit of the NUIT data-base, affecting the credibility and accuracy of the information on tax-payers. The assessment also identified as a weakness the lack of explicit, structured processes to identify the potential taxpayer base and to monitor and evaluate measures to mitigate the risks of non-compliance (although studies on these issues do exist for specific sectors.)

164. The system is now being gradually replaced by a more modern and safer system based on the ETPM platform, within the scope of the e-Tax project (*e-Tributação*), and one of its fundamental pillars is the NUIT Registration module. This was designed and developed in the new platform (the main difference from the previous one relates to being integrated and available on-line), and is currently in the phase of roll-out to the Tax Directorates (*Direcções das Áreas Fiscais*). This module will be used for the allocation and control of NUIT numbers, facilitating the management of all activities related to the lifecycle of taxpayers. By the end of 2014,

there had been registered in the new NUIT database within in the *e-Tributação* system, 834,369 NUITs, of which 33,850 were registered at the level of the Tax Directorates (*Direcções das Áreas Fiscais - DAF*) and 704 were large taxpayers (AT Performance Report - 2014).

165. The current NUIT registration system that is being replaced by the *e-Tributação* system is not harmonized with most other registers and data-bases (e.g., for Identity Cards, Registration of companies, etc.), and is integrated only with the MEX (budget execution) module of e-SISTAFE which includes the NUIT of employees, pensioners, suppliers and state agents. Although the NUIT is required for the opening of bank accounts, at present the lack of connection between systems limits the interaction between AT and other public institutions (such as the *Instituto Nacional de Segurança Social*, the National Statistics Institute, the National Institute of Transport, the Ministry of Industry and Trade, the Ministry of Justice etc.), which have information relevant to tax investigation, risk analysis for audit planning and analysis/ projection of revenue.

166. Considering the limitations described above and the fact that the *e-Tributação* system is still in the early stages of the implementation phase, the first dimension of this indicator remains with a "B" rating.

167. The General Register of Tax Offences - REGIT *Regime Geral das Infracções Tributárias,* (Decree N.º 46/2002) establishes the system of penalties for cases of non-compliance with tax obligations, detailing the penalties and fines applicable in all cases of non-compliance (both in terms of values and the total maximum ceilings on fines). Thus, the REGIT clearly establishes the rules and the AT management response applicable in cases of non-compliance with tax obligations.

168. Despite the clarity of the legal regulations, evidence presented in the TADAT assessment points to the limited effectiveness of existing sanctions and management responses in terms of their ability to generate genuine incentives for greater compliance with the deadlines for submission of tax declarations. In particular, less than 10% of tax payers for IRPC and IRPS and less than one third of VAT (IVA) contributors comply with submission deadlines.

169. It is more difficult to obtain evidence of the impact of the penalties system on the incidence of non-compliance regarding tax registration obligations. There are no detailed studies of the potential "tax gap" arising from late or non-registration in the tax-payer register or delays in the declaration of start of activities by the relevant taxpayer groups. This evidence would serve to substantiate the actual impact of REGIT and its application in discouraging non-compliance with tax obligations.

170. Therefore regarding the dimension (ii), which assesses the effectiveness of penalties for breaches of obligations in relation to tax registration, submission of tax declarations and timely payment of taxes, the evaluation rating is a "B", given that a clear framework of penalties exists but there remain some doubts over their effectiveness in creating incentives for greater compliance

171. Regarding dimension (iii) concerning the planning and monitoring of tax audit programmes and fraud investigations, Table 15 below summarizes the data obtained from AT Performance Reports for the last three years. The AT prepares an Annual Plan of Audits and Tax Inspections in accordance with the Tax Inspection Regulation (adopted by Decree No. 19/2005). This details a clear set of rules and guiding principles for the

inspection process, which is based upon risk criteria and covers all of the taxes, whose collection is based on self-assessment (*IVA, IRPS, IRPC*).

Table 16: Audits/ Tax inspections by the AT, 2012 - 2014

Evidence on AT audit work/ inspection	2012	2013	2014
Number of audits/inspections conducted (internal taxes) vs. planned and execution %	1.097 *vs.* 1.070 planned (103%)	1.174 *vs.* 1.450 planned (81%)	1.101 *vs.* 1.050 planned (105%)
Taxable matter in MZN millions	7,026	10,484	23,750
Calculated tax (due) in MZN millions	1,843	2,082	5,761
Tax due as % of State Revenue (excluding capital gains)	2%	1.9%	4.2%

Source: AT Performance reports (2012-14)

172.According to the evidence presented above, generally audit plans are complied with and generate results in terms of the calculation of substantial tax debts (being the vast majority related to the IRPC and VAT). However, as analyzed by the PI-15 indicator, substantial challenges remain regarding the collection of these identified tax debts, resulting in a high level of arrears.

173.In addition to highlighting the limited institutional capacity of the AT to intervene where tax arrears are identified, the TADAT assessment points to shortcomings in the design of audit plans due to the lack of prior identification by type of tax, nature of contributor and nature of intervention. (It is a requirement for an "A" score under this dimension that audit plans should include these details.) Therefore, despite the fact that tax audits and fraud investigations are managed according to a documented audit plan with clear risk assessment criteria, the identified shortcomings mean that a "B" score is accorded to this dimension (iii) and thus a "B" score for the indicator as a whole.

Comparison with 2010 assessment

174.The score has fallen from an "A" to a "B", based largely on the additional evidence provided through the TADAT assessment, and the greater rigour which this has permitted in the application of the PEFA methodology. However, we do not believe that this represents a decline in performance, in that if a detailed TADAT study had been available in 2010, the score for this indicator would probably have been "B" or lower at that time.

PI – 15: Effectiveness in collection of tax payments

Indicator	Dimension	Assessment 2007		Assessment 2010		Assessment 2015	
PI – 15: Effectiveness in collection of tax payments	(i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years).	**D**	D+	**C**	C+	**D**	D+
	(ii) Effectiveness of transfer of tax collections	**B**		**B**		**B**	

Indicator	Dimension	Assessment 2007		Assessment 2010		Assessment 2015	
	to the Treasury by the revenue administration.						
	(iii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury.	A		A		A	
Rating Method: M1							

PI-15 Indicator: 2015 Assessment

175. According to Table 17, the annual recovery rate of tax debt in 2013 and 2014 has been at an average of around 15%. The total value of tax payments in arrears is significant, comprising around 3% of the State revenue collected in those years (excluding capital gains tax). As a consequence, with a debt collection ratio below 60% and a total amount of tax arrears in excess of 2 % of total annual collections, a "D" rating must be accorded for the first dimension of this indicator.

Table 17: Annual Collection of Tax Arrears, 2013 - 2014

	MZN 10^6	**2013**	**2014**
1	Processos executivos, saldo no início do ano	2.315,45	2.544,97
2	Processos de contencioso, saldo no início do ano	996,28	1.569,25
3	Processos executivos cobrados e anulados durante o ano	208,31	211,40
4	Processos de contencioso cobrados, anulados, virtualizados e contestados durante o ano	401,79	252,91
	Índice de recuperação (3+4)/(1+2)	**18,4%**	**11,3%**

Fonte dos dados: Relatório de Actividade da AT 2014, pp 27-28

176. Within the conceptual model for *e-tributação*, the NUIT module will be linked to the module for Revenue Management (and monitoring of taxpayers). In particular, the NUIT will generate a corresponding current account in this module, which will record all transactions enabling, for example, the monitoring of all balances in credit or debit. In relation to the Revenue Management Module, the VAT sub module is currently in pilot phase, while the IRPC and IRPS modules are under development.

Figure 12: Summary of the processes for identification, assessment and collection of tax

1	Receipt of a Payment Note, based upon forms received and filled in by the taxpayer
2	Verification of information (e.g., value, revenue classification etc.)
3	Entering of data in the SICR, allowing the user to compare the tax assessment information calculated in the system with the stated amount on the Payment Note
4	Allocation for each Payment Note, of an entry number and a revenue classification number by the SICR and manual transcription to the Payment Note
5	Return of the Payment Note to the taxpayer who proceeds with the payment to the Collector at the DAF/UGC office in cheque or cash (or by deposit in the bank account of the Tax Collection Office).

6	Communication by the DAF/UGC to the Bank of Mozambique (BM) or to Commercial Banks requesting the transfer of the amounts received in the account of the Tax Office to the Single Treasury Account (CUT), accompanied by "Model 51", which provides a breakdown of the amounts received in the period.
7	Based on the "Model 51" received, classification by DNT of the revenue received in the Budget Execution Module (MEX) of e-SISTAFE in conformity with the amounts paid into the CUT.
8	Confirmation by DNT of the receipt and classification of the amounts transferred by sending to the DAF/UGC a Collection Slip (GR – *Guia de Recolhimento)* generated automatically by the MEX during the revenue classification process.

Source: Adapted from pp. 6-7 of the Conceptual Model of *e-tributação* (UTRAFE/ AT 2009)

177. Regarding dimension (ii), according to the procedure described in Figure 12, the transfer of most of the revenue collected by AT continues to take place on a daily basis, despite the fact that some small amounts collected at the provincial level continue to be transferred on a weekly basis, hence justifying a "B" rating.

178. As a result of the daily transfer of funds to the CUT for the major part of the revenue, and successive classification and accounting of collected revenue in e-SISTAFE, which is confirmed by DNT, tax reconciliations are performed on a weekly basis, using the collection slips issued by the DNT and the Model 51 issued by the charging unit (see Figure 12 above).

179. For the dimension (iii) on the frequency of reconciliations between assessments, collections and receipt, the reconciliation process is an integral part of the process described above, and takes place within the month after the revenue transfer to the CUT, thus earning an "A" rating. Due to the rating methodology (M1), the final result for this indicator is "D+ ".

Comparison with 2010 assessment

180. The score against this indicator fell from a "C+" to a "D+" as a direct result of the deterioration in the score against dimension (i), relating to the average annual collection ratio for gross tax arrears in the two most recent years (2013 and 2014), which fell to only 15 %. This was caused by the significant increase in the number of tax cases in dispute. An improvement in future performance will therefore require measures to accelerate the processing of tax disputes, probably involving some simplification of the relevant legislation and regulations, as well as some expansion of capacity for processing these cases.

Prospects for the future

181. In recent years, AT has created a closer collaboration with the Attorney General's Office, in order to improve the recovery rates of tax arrears. The implementation of the e-tax (*e-tributação*) will also support improvements in tax inspection and control of tax debt by introducing the tax current account which will allow better monitoring of obligations. With the introduction of the e-tax (*e-tributação*) and the link to e-SISTAFE, the process of tax collection will be fully automatic. The collection network module (*Rede de Cobrança*) will ensure the management and control of the collection process and the payment and transfer of revenue into the CUT (with tax revenues being paid exclusively via commercial banks connected to the system and no longer at tax offices in the *Direções das Áreas Fiscais*). In addition, taxpayers will be able to do their income statements online.

PI – 16: Predictability in the availability of funds for commitment of expenditures

Indicator	Dimension	Assessment 2007		Assessment 2010		Assessment 2015	
PI – 16: Predictability in the availability of funds for commitment of expenditures	(i) Extent to which cash flows are forecast and monitored.	A	C+	A	C+	A	C+
	(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment.	B		B		B	
	(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs.	C		C		C	

PI-16 Indicator: 2015 Assessment

182. The predictability of the availability of funds for expenditure commitments is closely linked to the financial programming process. If financial programming is not properly structured and does not comply with good budgetary discipline, the effective implementation of cash-flow planning is compromised The financial programming process quantifies and establishes the state's financial flows for a certain period.. The parameters used are the revenue forecasts, the agreed expenditure limits and, subject to public finance legislation, the demand for expenditures.

183. There are two instruments for operationalizing the financial programming process in Mozambique: the Treasury Budget and the Treasury Plan. The first, the Treasury Budget establishes the financial programme for the financial year disaggregated by month. The Treasury Plan covers a quarterly period, although it is based on a calculation disaggregated by week: and defines the financial programming for the current quarter based upon the approved Treasury Budget (which is itself updated each quarter.)

184. The budget execution module (MEX) of e-SISTAFE is updated at the beginning of the financial year with maximum expenditure values, which can not be exceeded, as this is forbidden by Law and because the IFMIS does not allow it. The only possible exception to this rule is through a Parliament-approved budget amendment (i.e. a revised Annual Budget).

185. The expenditure ceilings defined in the OE are managed through the above described tools which allow for a high degree of predictability as well as for systematic monitoring of evolving cash and borrowing requirements, justifying the maintenance of the assessment of the dimension (i) with a rating "A".

186. Since the annual expenditure ceilings and the quarterly commitment limits are available in the MEX module of e-SISTAFE (and changes are restricted by the legal and system restrictions mentioned above), the information on the expenditure ceilings for Budget Execution Units (UGE) is made immediately available, enabling a credible management of the expenditure commitments of the entities under their responsibility for the forthcoming quarter. Information on funds available for commitment of expenditures is provided at least quarterly which justifies the evaluation of dimension (ii) as B.

187. According to the Financial Management Act (*a Lei SISTAFE*), it is possible to carry out budgetary adjustments, within the same budget line, between budget lines, or even between sectors. As long as the aggregate budgetary

ceilings are not exceeded, the Minister of Economy and Finance has the power to approve, as the Budget Law includes a delegation of competences from the Legislature (AR) to the Minister for the approval of reallocations. Within the evaluation period, given that the aggregate revenue targets were exceeded (due to higher than expected revenue collections from Capital Gains taxes), revised (supplementary) budgets were therefore approved by the Legislature (AR) in fiscal years 2013 and 2014.

188.Regarding the transparency of budgetary adjustments approved either by the Parliament or the Minister of Economy and Finance, these changes are firstly reflected in the budget execution module (MEX) of e-SISTAFE which will comprise the new budget ceilings. In addition, the quarterly Budget Execution Reports (REOs) include an annex that present the re-allocations by entity and by type of expenditure. Transparency could be further improved by introducing a table within the CGE summarizing all budgetary adjustments made in the fiscal year but, nevertheless, the current procedures are already high in transparency.

189.However, given that the in-year adjustments to budget allocations are frequent and significant, dimension (iii)´s score "C" is maintained.

Comparison with 2010 assessment

190.No changes in relation to the previous review.

Prospects for the future

191. The process of cash management in Mozambique is relatively advanced, and the MEF should soon be able to provide reliable information to MDAs on their commitment ceilings 6 months in advance rather than quarterly as at present. This would give maximum scores against dimensions (i) and (ii) of this indicator. However, predictability is undermined by the frequency and the scale of the budget adjustments which are regularly made during the budget execution process. While there is a need to include provisions for the Government to make budgetary reallocations, in order to compensate for unforeseen events, the frequency of adjustments at present illustrates that this is much more than simply a response to unforeseen events: as we have noted above there are clear problems in the accuracy of budget formulation. Until these shortcomings can be corrected, there will remain a need for frequent and significant budgetary reallocations in-year, which will undermine predictability in the making of commitments and the management of expenditures.

PI – 17: Recording and management of cash balances, debt and guarantees

Indicator	Dimension	Assessment 2007		Assessment 2010		Assessment 2015	
PI – 17: Recording and management of cash balances, debt and guarantees	(i) Quality of debt data recording and reporting.	A	A	A	A	A	A
	(ii) Extent of consolidation of the government's cash balances.	B		B		B	
	(iii) Systems for contracting loans and issuance of guarantees.	A		A		A	

PI-17 Indicator: 2015 Assessment

192. The first dimension of this indicator concerns the quality of recording and reporting of debt data. For the assessment of this dimension it is necessary to distinguish between the procedures regarding external debt from those used for domestic debt.

193. External debt records are complete, updated and reconciled on a monthly basis through the CS-DRMS system. The *Commonwealth Secretariat Debt Recording and Management System* (CS-DRMS) system, disseminated in the countries of the Commonwealth to which Mozambique belongs, is an integrated system for the registration, monitoring, analysis and reporting of public debt, whose functionalities allow a high degree of reliability regarding the quality of the data. Domestic debt records are kept separately but the quality of debt data recording and reporting is also high. Domestic debt is reconciled monthly, for which there are established procedures which were examined by the evaluation team.

194. A monthly reconciliation of all debt is carried out with data considered of high integrity and a relatively comprehensive management report, including statistics on debt service, stock and operations, is produced quarterly. Therefore, we consider that regarding the first dimension, an "A" score remains valid.

195. With regard to the second dimension of this indicator, relating to the consolidation of the cash balances of the central government, the majority (80 % or more) of central government's cash balances are now managed through the Single Treasury Account (CUT), which is reconciled daily through the e-SISTAFE. However, there are still substantial funds which are partially or fully off-CUT, which remain outside of this arrangement. These fall into three categories:

- A small number of services at the district level, which are not yet constituted as UGB and therefore cannot directly pay their staff and suppliers through the CUT, are still managed through a process of monthly advances, spending from which is acquitted monthly in order to permit a renewed monthly disbursement. This system – known as the *sistema duodecimal* – is now applied to a very small proportion of total spending, probably less than 2 %.
- As we noted above, in relation to indicator PI-15, some small amounts of tax collected at the provincial level continue to be transferred on a weekly basis to the CUT, although the vast majority are transferred daily.
- The most important set of cash balances managed outside of the CUT correspond to externally financed projects managed off-CUT. Because of the insistence of the respective funding agencies in managing these funds through their own separate bank accounts, these cash balances are not consolidated with the CUT. In 2014, externally financed projects comprised some 16-17% of total spending and 90 % of these projects (about 15 % of total spending) were managed off-CUT.

196. Therefore, given that most cash balances are calculated and consolidated weekly and yet significant extra-budgetary funds remain outside of this arrangement, a "B" score is maintained.

197. Regarding dimension (iii) of this indicator, the legal instruments and systems established and in place for the contraction of loans and guarantees are clear and well defined:

- For the contraction of loans the only competent authority is the Minister of Economy and Finance, regardless of the nature of the loan or of the borrowing entity. This therefore permits a centralization of the authority to contract loans within the principal body responsible for the management of public finances in Mozambique, which evidently facilitates improved monitoring and control of loans and of the resulting debts.
- Similarly, the Minister of Economy and Finance is the sole competent authority for the authorization of loan guarantees. Only the Minister of Economy & Finance can issue guarantees, within an annual limit defined by the Legislature (AR) through the approval of the Annual Budget Law.
- Both the contracting of loans and the issuance of guarantees are considered to have an "exceptional nature" – in legal terms - and must therefore be duly justified.

198. On the basis of this evidence, we consider that an "A" score is correct with regard to the third dimension of this indicator. By law, only the Minister of Economy & Finance may contract loans or issue guarantees, the latter within an annual limit defined in the Annual Budget Law. However, this legislation was breached in 2014, when the Minister of Economy & Finance approved a guarantee for the newly established parastatal, EMATUM, for a loan that was far in excess of the limit approved in the Annual Budget Law. We must therefore conclude that the guarantees issued by MEF do not always follow the legal requirements and the given ceilings. However, we consider that this is not a problem with regard to the existing system for issuance of guarantees, whose rules are clear, legally backed and consistent with good international practice. Rather this would seem to reflect a weakness in the system of external control and audit as applied by the *Tribunal Administrativo* – Mozambique's Supreme Audit Institution.

Comparison with 2010 assessment

199. This indicator did not suffer any changes in the score. The experience with the loan guarantee issued for EMATUM initially placed a question mark in the minds of the evaluators with regard to the validity of the score for dimension (iii) but the assessment team have concluded, as we note, above that this incident is more correctly interpreted as a sign of weaknesses in the system of external control and audit.

Prospects for the future

200. In order to improve the score of dimension (ii) of this indicator, it would be necessary for a majority of externally financed projects to be managed on-CUT, so that their cash balances could be consolidated daily through the e-SISTAFE. Hence, a condition required for the integral fulfillment of the requirements for an "A" score is that GdM partners should use the CUT and integrate their projects into the OE. The Government have consistently encouraged such a move and have developed guidelines to facilitate the process – the "*Guião da execução orçamental on-CUT*" – but most Development Partners have been reluctant to undertake this step.

201. Given the experience of 2014 with the issue of a loan guarantee by MEF for EMATUM for an amount far in excess of the limit specified in the Annual Budget Law, we must conclude that a robust institutional and legal framework for the contracting of loans and the issuance of guarantees is in itself insufficient to protect the

government from fiscal risks deriving from loan guarantees. Additional measures of external control and audit will need to be introduced by the *Tribunal Administrativo*.

PI – 18: Effectiveness of payroll controls

Indicator	Dimension	Assessment 2007		Assessment 2010		Assessment 2015	
PI – 18: Effectiveness of payroll controls	(i) Degree of integration and reconciliation between personnel records and payroll data.	**B**	**B**	**B**	**B**	**B**	**B**
	(ii) Timeliness of changes to personnel records and the payroll.	**B**		**B**		**B**	
	(iii) Internal controls of changes to personnel records and the payroll.	**B**		**B**		**B**	
	(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers.	**B**		**B**		**B**	

PI-18 Indicator: 2015 Assessment

202. The Regulation of the State Financial Management System (SISTAFE), approved by Decree N.º 23/2004, 20/Aug, provides for the payment of salaries and pensions to be processed by the IT system e-SISTAFE via the management module of salaries and pensions (*MSP - Módulo de Gestão de Salários e Pensões*). This module is operational since October 2010 and is known as e-FOLHA.

203. The intention is to replace the three alternative payroll processing systems that are currently operational, and to migrate the data contained in those three systems to e-FOLHA. In this way, e-FOLHA should in the near future generate the full and complete payroll. However, until this migration is complete, some salaries will continue to be processed, on a temporary basis, through the National System of Salaries (*SNV - Sistema Nacional de Vencimentos*), the Salaries Processing System (*SPS - Sistema de Processamento de Salários*) and the Salaries Payment System (*SPAV - Sistema de Pagamento de Vencimentos*).

204. According to the information provided by CEDSIF, about 80% of civil servants are already integrated in the e-FOLHA. This integration allows the verification of information in the Single Register of Civil Servants and State Agents (*o Cadastro Único de Funcionários e Agentes do Estado*), which is an electronic platform designated e-CAF maintained by the National Directorate of Public Administration (*DNAP - Direcção Nacional da Administração Pública*).

205. Given the degree of progress with the integration of public servants and state agents in the e-FOLHA, which pre-supposes their prior incorporation in e-CAF, there is a framework for reconciliation between both systems. Through the cross-checking of the data contained in the e-CAF and e-FOLHA, which is done automatically, the risk of errors and/or irregularities is relatively low. However, it should be noted that the e-CAF does not contain the complete data of all public servants excluding, in particular, the municipalities, public enterprises and, most significantly all state bodies concerned with Law and Order, Defense and Security.

206. We note that there have been significant improvements in the interlinking and integration of data-bases but there remains room for improvement. Given this evidence, we assess that the situation merits a

continuation of a “B” score for this dimension. given that not all personnel and payroll data are directly linked and some reliance on manual controls is still required.

207. All public servants, after nomination and approval by the *Tribunal Administrativo* (TA), are entered in the e-CAF register, which contains the relevant personal data (e.g. Name and NUIT), career data such as position and/or professional category, as well as the bank account for transfer of salary. In addition, any change in professional status, such as promotions or transfers, and any change in the public entity to which the public servant is affected must be recorded in the e-CAF after due approval by the *Tribunal Administrativo* (TA).

208. Therefore, any significant change which may occur during the career of a civil servant – from his or her nomination (entry into Public Service) to their retirement – is subject to prior checking and approval by the *Tribunal Administrativo,* who must verify the legality of the change and the existence of a corresponding expenditure commitment, where necessary. The existence of these controls implies that the payroll and personnel data for civil servants must be updated at least within three months of when the corresponding change in professional status is first notified to the TA, given that the TA is legally required to provide its ‘*visto*’ within a three month period. The evaluators were also informed (and were able to physically verify) that if the event requiring a change to records occurred prior to the time at which it was recorded in e-FOLHA and e-CAF then all due retroactive payments are also paid, being processed through e-FOLHA.

209. Given that up to 3 months’ delay may occur in the updating of payroll and personnel data, a “B” score is accorded for dimension (ii).

210. Nevertheless, as already mentioned, three parallel payroll systems still remain in force. For these, the Ministerial Diploma N.º 2010/2014, 9/10, defines clearly the verification and control process during the transitional period of data migration. These are manual controls and require, in summary, the submission of file with the evidence of the changes regarding the civil servant 's situation to the DNCP until these are decentralized with the required entity, whichever is the competent authority for payroll processing.

211. These files are checked and the salaries are verified in order to detect any discrepancy in the data. In the same manner and with the same intent, a comparison is made with the previous month's payroll. Clearly, if the control process detects discrepancies, the DNCP questions the entity and in some circumstances perceived as risky, performs additional supervisory actions. After these verifications, the information are loaded into MEX and the payment is effected automatically. Thus, in terms of the payment process, there is no distinction between the staff on these three systems and e-FOLHA.

212. However, cases remain in which salaries are paid through advances of funds. In certain areas of the country where the banking system is not yet available, payments are made in cash directly by public entities to their staff which, consequently, does not allow control and supervision by the DNCP with a satisfactory level of effectiveness, although controls are effected by the responsible entity at the local level (usually the Provincial Directorate of Planning and Finance - *Direcção Provincial de Plano e Finanças)*. According to data in the REO of December 2014, 67.7% of expenditure on wages and salaries were managed by direct payment from the CUT, and 32.3% through other methods (advance of funds and use of own revenues).

213. Hence, we conclude that the authority and basis for changes to personnel records and the payroll are clear, and that comprehensive computerized and manual controls are applied but that given the continued and relatively extensive use of manual controls, not all changes will result in an audit trail. For this reason, dimension (iii) is accorded a “B”.

214. In legal terms, the IGF is the competent authority to carry out audits of payroll and the evaluation team confirmed that entity-specific payroll audits are conducted frequently, given that this is explicitly considered as a risk area by IGF. The assessment team were also able to examine a random sample of payroll audits undertaken by IGF to confirm their quality.

215. However, in view of the large number of entities in the country (some 1,200 according to IGF’s annual plan) and the relatively limited number of inspectors that IGF has, and given also that its competence encompasses other areas that must also be audited by the IGF, not all central government entities are covered in any single year. However, the data suggests that in a period of three years, the number of entity-specific audits is sufficient to cover all central government entities. Thus, a “B” is accorded to dimension (iv) .

Comparison with 2010 assessment

216. As we have noted above, there have been significant and positive changes in the management of the payroll, driven in particular by the development of e-FOLHA and e-CAF and the steady migration of the civil servants of central government to this system. However, the fact that the migration process is not yet complete, alongside the persistence of a number of public servants who cannot be paid through bank accounts, means that manual controls have continued to be a significant part of the control process. At the same time, the capacity constraints within which IGF must work also limit the scope of annual payroll audits. For these reasons, these significant and well-evidenced system improvements have yet to translate to higher PEFA scores.

Prospects for the future

217. With the completion of the migration to e-FOLHA and e-CAF, the payroll control system will be very largely automated, covering approximately 95% of civil servants as indicated by CEDSIF, and thus an automatic audit trail will be generated for all controls applied and the timeliness of controls will also be enhanced. If, in parallel it proved possible to expand the capability of IGF to undertake payroll audits, further improvements across each dimension of this indicator could be expected.

PI – 19: Transparency, competition and complaints mechanisms in procurement

Indicator	Dimension	Assessment 2007	Assessment 2010	Assessment 2015	
PI – 19: Transparency, competition and complaints mechanisms in procurement	(i) Transparency, comprehensiveness and competition in the legal and regulatory framework.	Not comparable		B	D+
	(ii) Use of competitive procurement methods.			D	
	(iii) Public access to complete, reliable and timely procurement information.			D	
	(iv) Existence of an independent			D	

Indicator	Dimension	Assessment 2007	Assessment 2010	Assessment 2015
	administrative procurement complaints system.			

PI-19 Indicator 2015 Assessment

218. This indicator was substantially revised in 2011, with the addition of a new dimension and the remaining dimensions reformulated so as to introduce a clearer differentiation between the legal framework for public procurement system (dimension i), and its actual functioning (covered by the remaining dimensions). As such the PEFA evaluation of 2010 is not directly comparable with the assessment performed in 2015, applying the 2011 methodology.

219. The first dimension considers the legal framework for public procurement in order to determine if this is an open system, with clear and transparent supporting regulations. Decree N.º 15/2010, 24/May approves the regulation for contracting of public works contracts, and the supply of goods and services. This regulation sets out the different modalities and procedures applicable to all the State organs and institutions, including local authorities and public enterprises (in which the State holds 100% of the shares).

220. The standard model (‘regime geral’) is a public competitive tender, that is the most competitive public procurement form, although there is also provision for “special” and “exceptional” regimes or models (‘*regimes especiais e excepcionais*’). The “special regimes” occur as a result of international agreements or when the external lender requires specific procurement provisions as a financing condition . These special arrangements are subject to prior authorization by the Minister of Economy and Finance. There are six “exceptional regimes”, and, among these, the “direct bidding” mode (‘*ajuste direto*’) is the least competitive in the sense of being least open to competition.

221. The procurement process follows a Procurement Plan, implemented by the Managing and Executing Units for Public Acquisitions (*UGEA – Unidade Gestora Executora das Aquisições*) within each MDA. The data and information necessary for the production of statistics and analyses are reported by the UGEA to the Supervision Unit for Public Acquisitions (*UFSA – Unidade Funcional de Supervisão das Aquisições)* within DNPE. The management and decision-making in the respective phases of the procurement process is the responsibility of a committee consisting of at least three members of which one must belong to the respective UGEA. Contracts above a legally defined threshold are also subject to the prior approval of the Administrative Court (TA) which verifies, among other aspects, the legal procedure and the existence of a budgetary provision

222. Regarding the publicity of the procurement notice, as required by decree, this should be published in the press, as well as at the offices of the contracting entity and, in the case of international competitive bidding, in the Bulletin of the Republic (National Gazette). However, the award notice of the contract is only notified to the interested parties.

223. Complaints related to the procurement process are admitted first of all to the tender committee; appeal is then possible to the competent Minister, Provincial Governor or District Administrator, for the central, provincial and district levels respectively. In the final instance, appeal may also be made to the courts.

224. The assessment of the legal framework for procurement, following the 2011 PEFA methodology is summarized in Figure 13. As here noted, there are some limitations in access to information relating to public procurement, given that neither Procurement Plans nor contract awards are systematically published and there is no publication, via website or information media, of data on the settlement of disputes. Thus, the rating assigned to this dimension is "B".

Figure 13: Requirements regarding the legal framework for Procurement

REQUIREMENTS	Y/N
The legal and regulatory framework for public procurement should:	
(i) Be organized hierarchically with clearly defined precedence	Yes
(ii) Be free and easily accessible to the public through appropriate means	Yes
(iii) Apply to all procurements with government funds	Yes
(iv) Adopt open competitive bidding as the default method of procurement and clearly define the situations in which other methods may be used and how this has to be justified	Yes
(v) Provide public access to all of the following information: Procurement Plans of the government departments, bidding opportunities, contracts award and data on the resolution of procurement complaints	No
(vi) Provide an independent administrative procurement review process to address the complaints from participants before contract signature.	Yes

225. The second dimension aims to measure the degree of competition in public procurement, contrasting the use of less competitive methods – direct bidding ('*ajuste direto'*), with the most competitive methods - public tenders. In accordance with the legislation in force there are six tendering modalities that were added together under the generic name of "competitive tenders" in order to allow the comparison between these and direct bidding ('*ajuste direto'*). It should be noted that for the calculations, the special regimes were not taken into account based on advice that, although the law qualifies these also as public tenders, their special nature means that they are not comparable.

226. Up to the year 2012, the e-SISTAFE system was unable to generate information on the aggregate financial sums involved for each public contract modalities and for this reason, according to UFSA, this information is not available. However, this is not relevant here, as the amounts actually spent by more or less competitive mode are the crucial aspect for the rating of this dimension, in the 2011 methodology, not the numbers of contract awards.

227. Table 18 presents the data provided by UFSA classifying the public procurement contracts for the three-year period under review (2012-2014) according to the use of competitive tenders or direct bidding. In 2014, the contracts awarded through direct bidding represented some 53% of the total amount of expenditure contracted. This incurs a "D" for dimension (ii).

Table 18: Public tenders *in comparison* with Direct Bidding 2012-2014

Tipo de Modalidade\ Ano	2012				2013				2014			
	N.º Total	% do Total	Montante Total	% do Mont. Total	N.º Total	% do Total	Montante Total	% do Mont. Total	N.º Total	% do Total	Montante Total	% do Mont. Total
Concursos	3 139	65,219	n.d.		686 315	64,83	10 976 851318,83	53,47	193 945	32,42	21839 656 908,42	47,05
Ajustes Directos	1674	34,781			372 246	35,17	9 551200 284,28	46,53	404 325	67,58	24 579 900 048,75	52,95
TOTAL	**4 813**	**100**			**1 058 561**	**100**	**20 528 051 603,11**	**100**	**598 270**	**100**	**46 419 556 957,17**	**100**

Source: UFSA (relates to internal investment component and goods and services only) data for 2013 captures only 6 months of financial information.

228.Procurement plans exist and are monitored by UGEAs but are not available to the public. Whenever a tender is launched, it is the subject of a publication in the media, at the offices of the contractor and, if an international tender, in the Bulletin of the Republic. However, the award is notified to the interested parties and only occasionally made public. Regarding direct bidding, the award of contracts is not published.

229.Thus, information is lacking on the award of contracts, as well as on tender appeals and complaints. Therefore the assessment of this dimension, (iii), is a D since only one of the required elements is published (advertisement in the case of the launch of a public tender).

230. Dimension (iv) considers whether there is a transparent and open complaints system. To this end, the methodology requires, among other criteria detailed in the table below, that the complaints are assessed by an independent body including representation from civil society and the private sector, which is considered an essential element.

231.A complaints mechanism exists and is supported by legal provisions. It is structured on the basis of a sequence of levels of appeal, starting at the administrative level, where there exists the possibility of complaint to the tender committee managing the procurement, proceeding through appeals at a higher hierarchical level, and concluding in a litigation process, where provision is made for the possibility of recourse to the courts to resolve the dispute. Based on the legal provisions of the current legislation, the evaluators' assessment of the existing complaints system in comparison with the requirements specified in the 2011 PEFA methodology is presented in Figure 14.

Figure 14: Assessment of Procurement Complaints System in comparison with PEFA requirements

REQUIREMENTS OF 2011 PEFA METHODOLOGY	Y/N
Complaints are reviewed by an organization that:	
(i) Is composed of experienced professionals, familiar with the legal framework of acquisitions and includes members of the private sector, civil society and the Government	No
(ii) Is not involved, in any way, in the management of the procurement in question nor in the decision-making process with regard to the procurement contract in question.	Yes*
(iii) Does not charge fees that prevent access to any of the interested parties	Yes
(iv) Observes processes for presentation and resolution of complaints that are clearly defined and accessible to the public	Yes
(v) Exercises the authority to suspend the procurement process	Yes
(vi) Issues decisions within the time specified in the rules/regulations	No**
(vii) Issues decisions that are binding on all parties (without excluding the potential for recourse to an external judicial authority)	Yes

*** Neither "hierarchical" nor judicial appeals involve the jury that granted the award.**
**** Considered as not fulfilled since information about this requirement was not provided.**

232. Although the complaints system, in a broad sense, is properly structured and framed, the simple fact that the analysis of complaints is not performed by an organisation that contains members from the private sector and civil society, as specified in the methodology, incurs a "D" for dimension (iv).

Comparison with 2010 assessment

233. Since the methodology for this indicator was changed, it is not possible to make any comparison.

Prospects for the future

234. This indicator is strongly influenced by the detailed requirements specified in the methodology; thus, some more detailed attention to the specification of international good practices in the PEFA methodology (for example, regarding the composition of the complaints review body, and the publication of information) would allow improvements to be registered in future, given the extensive (and valuable) reforms already undertaken in regard to public procurement. There is however, one area which represents a major challenge, which is the use of more competitive public procurement processes, since direct bidding still accounts for over 50% of the value of procurement contracts.

PI – 20: Effectiveness of internal controls for non-salary expenditure

Indicator	Dimension	Assessment 2007		Assessment 2010		Assessment 2015	
PI – 20: Effectiveness of internal controls for non-salary expenditure	(i) Effectiveness of expenditure commitment controls.	B	B	B	B+	B	C+
	(ii) Comprehensiveness, relevance and understanding of other internal control rules/procedures.	B		A		B	
	(iii) Degree of compliance with rules for processing and recording transactions.	B		B		C	

PI-20 Indicator: 2015 Assessment

235. Expenditure appropriations and budget ceilings are registered in the MEX module of e-SISTAFE, and these cannot be exceeded. In addition, we note that the programming of expenditures comply with Treasury and Budget Plans, which are applied, as a rule, on a monthly basis. There is therefore close control of the spending commitments passing through e-SISTAFE.

236. Nevertheless, the control of expenditure commitments that is the result of advances of funds is done, not through the IT system, but as reported by the entities that perform this type of expenditure (almost exclusively district offices). Although the proportion of expenditures managed in this way is small, the assessment of the dimension (i) nevertheless remains as a "B".

237. There is a set of procedural rules defined in guidelines, circulars and handbooks that provide information on the additional controls to those resulting from the automatic controls in the IT system. Moreover, it should be noted that within the e-SISTAFE each stage in the processing of expenditures or revenues requires an electronic confirmation of consent by the internal control agent, who should in principle ensure the application of the full set of manual and automated controls.

238. Among these documents, the e-SISTAFE manual deserves special attention and the Financial Administration Manual of Accounting Procedures (MAF), approved by Ministerial Degree N.º 181/2013, 14/Oct, which covers most of the procedures to be adopted by users. In particular, in addition to other routines, it imposes the obligation of adopting the internal control routines considered appropriate in view of the activity developed by the entity. Similarly, the Internal Control Manual also contains these routines, which are complemented by audits carried out by the IGF, or by the TA in the framework of their competence ('fiscalização sucessiva').

239. However, evidence of the use of internal controls – other than expenditure commitment controls – is limited, although it has been verified with regard to the payment of wages or the process of the bank reconciliations. In the absence of comprehensive evidence of the use of the defined controls, according to the PEFA 2011 methodology, the evaluation of dimension (ii) must therefore be a "B".

240. As we have noted, the rules for internal control are well established and, in general, are implemented. However, due to the limitations that still prevail in some areas of the country, in particular since the e-SISTAFE system is not yet *online* in all districts, compliance with the expenditure cycle (commitment, verification and payment - *cabimentação, liquidação e pagamento*) is not always respected. In particular, it is apparent that it is not uncommon for these phases of the expenditure cycle to be registered in the e-SISTAFE system simultaneously rather than as separate processes.

241. In the same way and for largely the same reasons, the level of reporting of expenditures incurred through advance of funds, still exhibits some shortcomings. Therefore, the assessment granted to the third dimension (iii), is "C".

Comparison with 2010 assessment

242. In comparison with the 2010 assessment, there was a deterioration in the second and third dimensions, since there are still some weaknesses to overcome, particularly with regard to the use of the internal control

procedures in a more systematic manner as part of the management routine. In addition, it was noted that the spending cycle phases are not always complied with and that the level of reporting on the expenditure incurred for advance of funds is still weak. However, we are quite certain that these weaknesses are not new and do not represent a genuine deterioration relative to 2010; indeed, if the PEFA assessment of 2010 had had the benefit of the PEFA Field Guide of 2011, the scores would probably been the same or lower than those accorded in 2015.

Prospects for the future

243. Based on the weaknesses described above and that still persist, this indicator is likely to show an upward trend improvement as the online use of e-Sistafe is disseminated to all areas (districts) of the country and the employees are trained regarding its correct use. Further expansion of internal audit controls by IGF should also have a positive effect on this indicator.

PI – 21: Effectiveness of internal audit

Indicator	Dimension	Assessment 2007		Assessment 2010		Assessment 2015	
PI – 21: Effectiveness of internal audit	(i) Coverage and quality of the internal audit function.	**B**	C+	**B**	C+	**A**	B+
	(ii) Frequency and distribution of reports.	**B**		**B**		**B**	
	(iii) Extent of management response to internal audit findings.	**C**		**C**		**B**	

PI- 21 Indicator: 2015 Assessment

244. Without prejudice to the powers attributed to the internal audit units in the public entities where these exist, or the competences of sectoral inspectorates, the Inspectorate General of Finance (IGF - *a Inspeção-Geral de Finanças*) is the supervisory body whose scope of work includes all the State organs and institutions, the diplomatic missions and consular delegations of the State abroad, municipalities, public enterprises and subsidiaries with majority shareholding by the State, as well as public institutes and funds. This does not include the banking and insurance companies, the private and cooperative sector. However, IGF may, by order of the Minister who supervises the area of Finance, exercise its activity in those sectors too.

245. Thus, the scope of coverage of internal audit actions exercised by IGF is wide, covering all activities and functions of the State, regardless of the nature of the responsible entities.

246. In order to adjust the IGF legal framework to the norms of SISTAFE - the State Financial Administration System, Decree N.º 60/2013, 29/Nov, was implemented. This attributes and specifies the responsibilities of IGF within the framework of the internal control system (SCI – *Sistema de Controlo Interno*), which is the subsystem foreseen in the SISTAFE law (Law N.º 9/20202, 11/Feb), whose definition of internal control and of internal audit, is provided for in the regulations of the State Financial Administration System (Decree N.º 23/2004, of August 20). Thus, IGF is the supervisory body for the internal control system (SCI) and also of the '*Coletivo*' of Inspectors-General.

247. In terms of the scope of IGF operations, the measure adopted by the IGF for planning and monitoring its activities is the person day (*DUT – Dia Útil de Trabalho*). The number planned for 2014 was a total of 23,071 DUTs, which were distributed as shown in Table 19. The Table shows that 62% of the total time was spent in inspection actions; of 255 of the actions planned, 233 were carried out which corresponds to about 91% compliance with the audit plan.

Table 19: IGF-Distribution of person days (DUT) in 2014

DESIGNATION	DUTs	%
Inspection Actions	14, 374	62
Professional Training Courses	1, 545	7
Management and development activities	4, 845	21
Days off	2, 307	10
TOTAL	23, 071	100

Source: IGF

248. The selection of audits is based on a formal risk analysis and focuses primarily, but not exclusively, on the major areas of systemic risk, in particular public procurement, payroll, social security and the customs regime for temporary importation. A significant driver in the risk analysis is the materiality and the date of the last audit, as it is considered that the more time elapsed since the date of the last audit the higher the risks of mismanagement within the concerned public entity. Audits are conducted according to internationally accepted auditing standards and a random selection of audit reports was examined in order to verify this.

249. The combination of the time spent on audit activities, as well as the focus on systemic areas of risk, plus the government-wide coverage of the IGF with regard to the nature of the audited entities, leads us to grant an "A" score to dimension (i).

250. All audits are the subject of a report, of which the preliminary version is sent to the audited entity so that it may comment on the observations made and thus exercise the right of response. The final version is submitted to the Minister of Economy and Finance and to the audited entity to ensure their knowledge of the final conclusions and their compliance with the recommendations.

251. With regard to the submission of reports to the TA, this is not a legal requirement and is not done in a systematic manner. However, virtually all reports are shared with the TA, especially in the case of financial irregularities, which need to be sent to that Court (*Tribunal*) for the purpose of settling any liability. Therefore, the assessment of the dimension (ii) is a "B".

252. With regard to the implementation of the recommendations resulting from audits, IGF perform a systematic follow-up to their own audits, and since July 2014 have also performed a systematic follow-up to the recommendations arising from external audits performed by the TA. For the latter, there is a shared system between the IGF and the TA which allows the former to know which are the recommendations to be followed and also to introduce information on the results of their follow-up actions. Since July 2014, the TA has issued

423 recommendations of which 158 were assessed, in other words, 37% of the total. Of this total, 69 were complied with, which corresponds to 16% of recommendations verified as implemented.

253. With regard to recommendations resulting from audits of the IGF, a tracking system has been designed which details the recommendations made and the degree of compliance: – not implemented, in progress or completed. The assessment of compliance considers the follow-up made by the audited entity to the audit recommendations received in terms of concrete implementation measures. The level of compliance is measured either by means of questionnaires sent to the entity, which is required to respond in 45 days attaching the respective evidence, and/ or through visits to the entity itself in order to assess compliance. Based on this information, Table 20 has been constructed.

Table 20: Follow-up to IGF Audit Recommendations

YEARS	TARGET (PES)	N.º of REC.	REC. COMPLIED WITH	
			N.º	%
2012	20%	8, 456	2, 331	27.6
2013	35%	10, 541	5, 145	49.2
2014	45%	5, 357	2, 754	51.4

Source: IGF

254. Table 19 illustrates the progress made in the implementation of the recommendations, which, in percentage terms, between 2012 and 2014 nearly doubled, from 27.6% in the first year analyzed to 51.4% in 2014. Moreover, in each year the target stipulated in the PES, which has been progressively more demanding, has always been met and even exceeded. Therefore, the assessment of the dimension (iii) is a "B".

Comparison with 2010 assessment

255. Performance against this indicator has improved in particular due to improved audit coverage, and strengthening of follow-up and implementation of recommendations.

Prospects for the future

256. There is still space for improvement in future evaluations, in particular due to the use, in 2015 and subsequent years, of a more comprehensive risk matrix for the selection of sectors and, within these, the entities to audit. This matrix combines 5 criteria of risk analysis: two relating to sectors and three related to the entities, classified qualitatively in low, medium and high risk, which corresponds quantitatively to scores of 1, 2 or 3, respectively. After the addition of the rating assigned to each criterion, the same is ordered in descending order with the sectors and corresponding entities to audit.

4.6. Accounting, Recording and Reporting

PI – 22: Timeliness and regularity of accounts reconciliation

Indicator	Dimension	Assessment 2007		Assessmen t 2010		Assessment 2015	
PI – 22: Timeliness and regularity of accounts reconciliation	(i) Regularity of bank reconciliations.	B	B	B	B	B	B
	(ii) Regularity of reconciliation and clearance of suspense accounts and advances.	B		B		B	

PI-22 Indicator: 2015 Assessment

257. With regard to bank reconciliations, it is necessary to make a distinction between the accounts that are inside the CUT, which are directly managed by the Treasury (DNT) and the accounts under the direct responsibility of the MDAs – notably the accounts for (off-CUT) externally financed projects, as well as the district-level accounts used for expenditures managed through monthly expenditure advances, the accounts used for receipt of own revenues (*receitas próprias*) and the accounts used for payment of taxes at the district level through the DAF (*Direções das Áreas Fiscais*). The Treasury-managed accounts within the CUT are reconciled on a daily basis.

258. From the data in the REO for December 2014, we estimate that 80 % of government expenditure now passes through the CUT. For the central government accounts that are not managed directly by the Treasury, the majority are subject to a monthly bank reconciliation, undertaken by DNT.

259. However, the mapping of accounts not integrated within the Treasury account, i.e. the CUT, remains incomplete; indeed, this is one of the government commitments included in the 2015 memorandum of understanding between the Government of Mozambique and the IMF. This continuing gap has a negative effect on the performance of dimension (i) of this indicator. With regard to central government, the off-CUT bank accounts not yet adequately identified in the mapping process are exclusively externally funded projects. This is despite the fact that the CUT has had a multi-currency facility since 2009, allowing for payments in the currencies of US dollars (USD), Euros (EUR) and Rand (ZAR) for specific operations. The multi-currency facility is also broken down into several subaccounts, which would allow it to incorporate externally financed projects while complying with the principle of treasury unity.

260. Information contained in the REO for December 2014 reports that of the total of Mtz 15.3 billion expenditure on externally financed projects, only Mtz 1.6 billion was executed through the CUT, i.e. some 10% of externally financed project expenditure. This weakness is to an extent mitigated by the fact that some off-CUT project expenditures are incorporated into e-SISTAFE through journal entries (‘*incorporação de balancetes*’) and can therefore be subject to the monthly bank reconciliation of central government accounts.

261. Therefore, despite the fact that bank reconciliations for Treasury-managed expenditure (through the CUT) are undertaken daily, and that a formal reconciliation of all central government accounts is undertaken monthly, the continued existence of significant numbers of bank accounts for externally financed projects,

which cannot be properly monitored and therefore included in the reconciliation of central government accounts means that this dimension continues to be scored as a “B”.

262. Regarding the regularity of the reconciliation and clearance of suspense accounts and advances, this is a process undertaken monthly for most advances and, at least, on an annual basis for all such accounts. There is a report in the Year-end accounts (CGE) in the "Terminated Exercises" line (‘*Exercícios Findos’*), which shows what might be considered uncleared balances. Specifically, this line contains the expenditure which has been authorized (‘*liquidada’*) and not paid, as well as commitments which, for some reason, were not paid within the financial year, such as, for example, expenses committed in the calendar year but after the financial year is closed. This line represents 0.1% of total expenditure - that is, it is materially irrelevant.

263. We thus conclude that reconciliation and clearance of all suspense accounts and advances takes place at least annually within two months of the end of the period, although some minor uncleared balances are brought forward. In this case, the assessment of the dimension (ii) is “B”.

Comparison with 2010 assessment

264. The assessment remained unchanged.

PI – 23: Availability of information on resources received by service delivery units

Indicator	Dimension	Assessment 2007	Assessment 2010	Assessment 2015
PI – 23: Availability of information on resources received by service delivery units	(i) Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front-line service delivery units (focus on primary schools and primary health clinics) in relation to the overall resources made available to the sector(s), irrespective of which level of government is responsible for the operation and funding of those units.	**D**	**D**	**D**

PI-23 Indicator: 2015 Assessment

265. With regard to information on resources, in cash or in kind, which were received by service delivery units, the lack of information registered in the previous PEFA assessment remains – a fact confirmed by the DAF of the Education sector, which does not have full knowledge of the resources received by schools. This results from the fact that school management and budget execution is decentralized, and, therefore, data on resources received is held at the school and district levels.

266. Therefore, the managers of these resources are purely service provision units (in the example that was assessed by us, we considered the schools) since they are not considered cost centres in the accounting sense of the term and are not integrated directly into the e-SISTAFE system. Therefore, the degree of reporting and control is extremely low. For these reasons, we maintain the assessment of this indicator as D.

Comparison with 2010 assessment

267. There is no change regarding the previous assessment

PI – 24: Quality and timeliness of in-year budget reports

Indicator	Dimension	Assessment 2007		Assessment 2010		Assessment 2015	
PI – 24: Quality and timeliness of in-year budget reports	(i) Scope of reports in terms of coverage and compatibility with budget estimates.	**C**	C+	**C**	C+	**B**	**B**
	(ii) Timeliness of the issue of reports.	**B**		**B**		**B**	
	(iii) Quality of information.	**B**		**B**		**B**	

PI-24 Indicator: 2015 Assessment

268. The quarterly budget execution reports (*REOs*) contain a first descriptive part, in which there is a set of aggregated data according to various classifiers. These data include revenue and expenditure, the latter being divided into operating expenses and investment expenses and further subdivided into domestic investment and foreign investment. After the aggregate tables, are presented detailed tables that refer exclusively to the execution of the expenditure budget. In general, the analysis presented in REOs leans heavily towards expenditure rather than revenue. To this extent the degree of coverage is not complete.

269. However, it should be noted that the degree of coverage in relation to expenditures is quite deep, with several tables presented relating to the degree of budget execution, comparing appropriations with the execution rates with regard to operating and investment expenditures. In addition, for both categories of expenditure, data are presented on amounts committed, authorized (liquidated) and paid, although this information is presented only in the aggregate tables.

270. Therefore, the presentation of data in the REOs is relatively complete and allows a direct comparison with the budget; in addition, data is presented at commitment, liquidation and payment stages, although only at the aggregate level. Thus, a "B" is accorded to dimension (i).

271. It was found that for the years 2012, 2013 and 2014, the REOs were issued 45 days after the end of the quarter[11], whereby the evaluation of the dimension (ii), is "B".

272. Regarding the quality of the information, beyond what has already been said about dimension (i), there are some doubts over the accuracy of the information contained in the REOs regarding expenditures funded outside of the CUT. This information results from the consolidation of balance sheets ('*balancetes*') that entities that operate outside the single account issue to the National Directorate of Budget (DNO) for subsequent inclusion in accounts through journal entries. Given that this information is not collected by the MEX module of e-SISTAFE directly, there is no basis for its verification through a bank reconciliation process and thus doubts remain over the accuracy of the data provided. This factor is relevant both for off-CUT externally financed projects and for own revenues not directly paid into the CUT. For example, this is proven by the fact that the

11 Release of quarterly budget execution reports within 4 weeks of the end of the period would justify an "A" score.

REO of Jan-Dec, 2014 contains information relating to revenues, resulting from the integration of prior-year balances from own revenues not included in the OE.

273. Therefore, we consider that although there are some concerns about accuracy, these are minor and do not compromise the overall consistency and usefulness of the REOs; thus, dimension (iii) is accorded a "B".

Comparison with 2010 assessment

274. There has been an improvement in dimension (i), in particular through introduction in the REOs of information regarding expenditure commitments, which had a positive impact on the performance of this indicator. If this same information could be provided on a more disaggregated basis allowing a detailed comparison of expenditure commitments and payments against the original budget, this dimension would score an "A" in future. Improvements in the timeliness of issue of the quarterly REOs (within 4 weeks of the end of the quarter) and improved accuracy in the reporting of off-CUT revenues and expenditures would generate equivalent improvements in dimensions (ii) and (iii) respectively.

PI – 25: Quality and timeliness of annual financial statements

Indicator	Dimension	Assessment 2007		Assessment 2010		Assessment 2015	
PI – 25: Quality and timeliness of annual financial statements	(i) Completeness of the financial statements.	**C**	C+	**B**	C+	**B**	B+
	(ii) Timeliness of submission of the financial statements.	**A**		**A**		**A**	
	(iii) Accounting standards used.	**C**		**C**		**B**	

PI-25 Indicator: 2015 Assessment

275. The General State Account (*CGE – Conta Geral do Estado*) is the document which comprises the consolidated year-end financial statements of the Government. It presents the details of the execution of the central government budget and the related financial operations, as well as presenting the fiscal year results and performance of State bodies and institutions. Thus, the starting point for the CGE is the approved State Budget (OE), taking account of the budget amendments introduced throughout the year and any legislative budget revisions.

276. The CGE also contains information concerning financial operations, assets and liabilities, OE financing, public debt and some contingent obligations, such as loan guarantees. After this global information, several detailed tables are presented, whose details are considered under dimension (iii) of this indicator.

277. Based on our detailed analysis of the CGE, we conclude that it constitutes a transparent and consistent consolidated government financial statement with full coverage of revenues and expenditures. It also includes reasonably complete information on financial assets and liabilities, although there are some gaps in particular in relation to contingent liabilities. Therefore, we maintain a "B" score for dimension (i).

278.According to the legally defined schedule, the CGE must be submitted to the Administrative Court (*Tribunal Administrativo*) for Opinion by May 31. This date has been consistently complied with according to the evidence provided for the last three financial years. Therefore we shall maintain assessment "A" for dimension (ii), given that accounts are consistently submitted for audit within 6 months of the close of he fiscal year.

279.The accounting standards used in the CGE are consistent with those defined in SISTAFE regulations and more recently in the Financial Administration Manual of accounting procedures (*MAF – Manual de Administração Financeira de Procedimentos Contabilísticos*), approved by Ministerial Degree N.º 181/2013, of October 2014. This Manual includes a higher set of standards, as well as clear explanatory details on the use of budgetary classifiers for accounting purposes.

280.In addition to a set of detailed tables for functional, economic, and territorial classifications of central government revenue and expenditure, the CGE also contains information on the revenue, expenditures and opening and closing balances related to autonomous Institutions, municipalities, public enterprises and companies with majority State shareholdings. The consolidated inventory of State Assets has also been part of the CGE since 2012. (This is Annex 7 of the CGE, which is presented in three volumes.)

281.Finally, it should be noted that the CGE includes an overall balance of State revenue, expenditure and financing with debit and credit entries presented using the double entry book-keeping methods. In addition to the adoption of the new standards specified in the MAF, this represents a significant upgrading of standards in relation to those applied at the time of the 2010 PEFA assessment.

282. Hence, we consider that the accounting improvements and new standards which have been adopted are close to IPSAS norms and could be considered comparable with those norms. Thus, dimension, (iii) is evaluated with a "B".

Comparison with 2010 assessment

283. There has been an improvement in this indicator, which went from C + to B +, due to the improvement in the accounting standards applied for the preparation of the CGE. With further improvements in the coverage of the CGE, so as to include comprehensive coverage of all assets and liabilities – including contingent liabilities, an "A" score against this indicator should be attainable.

4.7. Legislative Scrutiny and External Audit

PI – 26: Scope, nature and follow-up of external audit

Indicator	Dimension	Assessment 2007		Assessment 2010		Assessment 2015	
PI – 26: Scope, nature and follow-up of external audit	(i) Scope/nature of audit performed (incl. adherence to auditing standards).	C	C+	C	C+	C	C+
	(ii) Timeliness of submission of audit reports to legislature.	B		B		B	
	(iii) Evidence of follow up on audit recommendations.	B		B		C	

PI -26 Indicator: 2015 Assessment

284. Law N.º 14/2014, of August, 2014, establishes the organisation, functioning and procedure for the external control of public revenues and expenditures, as well as for the prior approval (*'visto'*) of the Administrative Court (TA – Tribunal Administrativo). The TA has jurisdiction and financial control throughout the legal system of the Republic of Mozambique, both in national and foreign territory, which is a wide jurisdictional scope with regard to the exercise of its powers.

285. Thus, the TA is the supreme and independent audit institution, controlling the legality and efficiency of public revenue and expenditure and undertaking, among other functions, the ex post control of the entities under its jurisdiction (external audit), the verification of any financial responsibility that may fall upon the State, as well as the issue of a prior approval (*'visto'*) regarding the legality and budgetary coverage of acts and contracts resulting in revenue or expenditure for the State.

286. The TA is also responsible for rendering an opinion on the year-end accounts of the government – the CGE. This involves an analysis, and subsequent issuance of opinion on the State's financial activities in the year to which the accounts relate, covering all aspects of revenue and expenditure, subventions, tax benefits, credits and other forms of support granted by the State.

287. Within this framework, dimension (i) of this indicator refers essentially to the TA's activities with regard to ex post control, in other words the external audits of the entities under its jurisdiction – audit reports which should, according to the new law of 2014, be advertised in the Bulletin of the Republic. These audits follow international standards, in particular those of INTOSAI, and are divided into regular audits and performance audits, the latter being the more recent in the context of the activity of the TA.

288. During the evaluation team's analysis of the regular audit process[12], we noted that these are conducted according to pre-defined check-lists for each area of analysis, that evidence is systematically collected for this purpose and that the accompanying working papers are carefully archived. We also confirmed the systematic undertaking of internal quality assurance reviews of audit work.

289. The selection of entities to be audited is based upon the application of criteria of risk analysis, although the definition thereof does not appear in any of the documentation made available to us (Background to the Plan and the Plan Matrix for 2012/13/14 – *Fundamentação do Plano e Matriz do Plano*). According to the information transmitted in meetings, these criteria comprise the inherent risk (without clarification regarding how the same is measured) and other indicators (referred to in a general manner without additional explanation). Moreover, the document referred to as a "Risk Matrix" is not a matrix in the technical sense of the term, but an annual plan, which refers, for example, to goals, priorities, rationale for chosen audits, and financing costs. Hence, there is no explicit reference in this "Risk Matrix" to budgetary and fiscal risks nor to the selection of audit actions on the basis of risk analysis.

[12] With regard to performance audits, no performance audit reports were provided for scrutiny by the team, therefore we are unable to provide an opinion on their quality.

290. With regard to the annual coverage of the institutions of the State achieved by the external audits, as may be seen from Table 21, this falls short of the 50%, defined by the PEFA methodology as the minimum required for a "C" score on dimension (i). However, the institutions audited include a majority of the large institutions of the central government and thus in terms of coverage of annual expenditure, this exceeds the 50 % benchmark.

Table 21: Audits Completed and Judged by the TA, 2012-2014

YEARS	N.º of Audits	% of the OE	N.º of Audits Judged	% of Audits Judged
2012	450	40.32	84	18.67
2013	450	39.50	145	32.22
2014	403	42.20	207	51.36

Source: TA Financial progress reports (2012/13/14)

291. As regards the institutional and thematic coverage of audits, these focus on the entities belonging to the central, provincial and district levels of government. In addition, included in the following table under the heading "other", there are also audits undertaken of public works projects, of projects of the World Bank as well as thematic audits.

Table 22: Scope of audit coverage, 2012 – 2014

SCOPE	2012	2013	2014
	% of the N.º of AUDITS	% of the N.º of AUDITS	% of the N.º of AUDITS
Central	20.2	14.2	21.6
Provinces	43.8	37.6	38.5
Districts	27.3	22.7	8.7
SUBTOTAL (1)	91.3	74.5	68.7
Others (2)	8.7	25.5	31.3
TOTAL (1) + (2)	100	100	100.0

Source: Financial progress reports (2012/13/14)

292. Therefore, we conclude that a relatively wide range of financial and performance audits are conducted, which generally adhere to international audit standards. There is a focus on systemic issues of risk but the definition and assessment of systemic risks leaves room for improvement. Central government entities representing at least 50 % of total expenditures are audited annually. On this basis, a "C" score is accorded to dimension (i).

293. Dimension (ii) refers to the timeliness of submission of audit reports to the Legislature. In this respect, it should be noted that, in accordance with the legal provisions, the TA is not required to submit to Parliament the external audit reports carried out within the framework of the TA's competences of ex post external control

('*fiscalização sucessiva*'), which are subject to judicial review by the judges of the TA and not subject to Legislative review. However, the TA is required to submit an annual opinion ('*parecer*') to the Legislature on the year-end financial accounts of the Executive, i.e the CGE. This opinion contains an analysis, and subsequent issuance of opinion, about the State's financial activities in the year to which the CGE relate, in the areas of revenue and expenditure, subsidies, tax benefits, credits and other forms of support granted by the State.

294. The legally defined schedule requires the TA to submit to Parliament its opinion on the CGE by 30th, November of the subsequent year to the accounts. According to the data transmitted to us, and as set out in the following Table, this schedule has always been fulfilled[13]:

Table 23: Timing of the issue of TA's Opinion on the CGE to the AR

YEAR OF THE CGE	ISSUE DATE	COMPLIANCE CALENDAR
2010	29/Nov/2011	Yes
2011	30/Nov/2012	Yes
2012	29/Nov/2013	Yes
2013	28/Nov/2014	Yes

Source: Assembly records on timing of the submission of the TA's opinion to the AR

295. Thus, over the last four years audit opinions on the CGE have been submitted to the Legislature within 6 months of the receipt of the CGE by the TA, which justifies the assignment of a "B" rating to dimension (ii).

296. The external audits of the TA are subject to the so-called principle of the adversarial procedure ('*principio do contraditório*'), which gives the audited entity a formal right of reply, should they wish to use it, to the findings and recommendations of the audit. In this respect there is a formal response on the part of audited entities, as this right is enshrined in Law and is respected. However, there is no evidence of a systematic procedure for the TA to perform a follow up on the implementation of its recommendations. Indeed, the evaluation team were informed that the implementation of past recommendations is only checked by the TA if and when the entity is again to be audited by the TA[14].

297. On the other hand, since July, 2014, the TA has been sharing with the IGF the recommendations arising from its external audits. This has allowed the IGF, within the limits of its capacities, to undertake through its financial inspections and internal audits a systematic follow-up to the recommendations included in the TA's external audits. Despite this improvement, data from IGF show that, since July 2014, the TA has issued 423 recommendations of which 158 were assessed by IGF, in other words, 37% of the total. Of this total, 69 were complied with, which corresponds to 16% of recommendations verified as implemented. (See indicator PI-21.) In

[13] The same calendar requires that the CGE is submitted for opinion of TA by 31st, May. As we noted in PI-25, this date has also been consistently respected.

[14] Based on the coverage of audit shown within Table 22, this would normally be within a period of 3-4 years. However, the evaluation team were informed that larger institutions and institutions considered subject to fiduciary risks are audited more frequently.

short, even with the support of the IGF in the follow up of recommendations, the evidence suggests that the process of follow up remains weak.

298. Therefore, the assessment for this dimension, (iii) is "C", reflecting the fact that, despite the fact that there is a formal response by audited entities, the evaluation team did not receive sufficient evidence to confirm that these responses are timely and thorough, and moreover there is limited evidence of systematic (and timely) follow up to recommendations, particularly by the TA itself.

Comparison with 2010 assessment and Prospects for the future

299. Despite having observed an apparent decline in the quality of follow-up to the recommendations of the TA's external audit reports under dimension (iii), which went from B to C, the overall score for the indicator was unchanged due to the method of valuation applicable (M2). This seems a fair reflection of the overall changes in the effectiveness of the TA in that, although there has been a significant expansion of audit capacity since 2010, the TA continues to suffer human resource constraints, which means that the annual coverage of audit is still some way from the benchmark of 75% of central government expenditure required for a "B". More worrying, perhaps, has been the continued weakness in the process of follow-up to recommendations by the TA. Although the introduction of joint processes of follow-up in collaboration with the IGF is a positive step, there is a continuing need for structured, systematic processes of follow-up to be established by the TA. If such measures could be combined with efforts to ensure timely and thorough management responses from audited entities, as well as efforts to target audit work more carefully to areas of systemic risk – introducing more technically advanced methods of assessing risk - the effectiveness of audit work is likely to improve considerably.

PI – 27: Legislative scrutiny of the annual budget law

<table>
<tr><th>Indicator</th><th>Dimension</th><th colspan="2">Assessment 2007</th><th colspan="2">Assessment 2010</th><th colspan="2">Assessment 2015</th></tr>
<tr><td rowspan="4">PI – 27: Legislative scrutiny of the annual budget law</td><td>(i) Scope of the legislature's scrutiny.</td><td>A</td><td rowspan="4">B+</td><td>A</td><td rowspan="4">C+</td><td>B</td><td rowspan="4">C+</td></tr>
<tr><td>(ii) Extent to which the legislature's procedures are well-established and respected.</td><td>A</td><td>A</td><td>A</td></tr>
<tr><td>(iii) Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined).</td><td>A</td><td>A</td><td>C</td></tr>
<tr><td>(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature.</td><td>B</td><td>C</td><td>C</td></tr>
</table>

PI-27 Indicator: 2015 Assessment

300. The Executive's Budget Proposal (*a proposta de Orçamento do Estado*) includes detailed estimates of revenue and expenditure. It is submitted to Parliament supported by the annual Economic and Social Plan (PES), which is a document that is based on the medium-term Fiscal Scenario (CFMP), in which the Government presents its

medium-term policy options. The CFMP is also systematically presented to Parliament, as part of the documentation of the budget.

301. According to the information transmitted by the Plan and Budget Committee (CPO), Parliament (AR) focuses its attention on the detailed annual estimates of revenue and expenditure. Although it does consider the proposal for the annual Economic and Social Plan (PES), it does not analyze the three documents submitted (proposals for OE, PES and CFMP) as a coherent whole. Indeed, the analysis of the CFMP is not a legal requirement and is not systematically analysed in the process of Legislative scrutiny.

302. Thus, the Legislative review covers fiscal policies and aggregates for the coming year as well as detailed estimates of expenditure and revenue but it does not include analysis of the medium term fiscal framework. Therefore, a "B" score is accorded to this dimension (i).

303. Dimension (ii) considers the extent to which the Legislature's procedure for review of the annual budget proposal are well-established and respected. The procedures established in Mozambique involve the initial tabling of the Executive's Budget proposal and the related documentation before the plenary of Parliament (AR). The documentation is then distributed by the Planning & Budget Commission (*CPO – Comissão de Planificação e Orçamento*) to 7 of the 9 specialised committees of Parliament – specifically to the seven sectoral committees. Each of these committees carries out meetings with the relevant members of the Government and issues their opinion. Their opinion is sent to CPO who in turn provide their consolidated opinion. After this assessment and consolidation of opinions from the sectoral committees – during which changes not affecting the overall budget aggregates may be introduced, the draft budget as well as the consolidated opinion of the CPO is submitted for discussion and approval by the plenary of Parliament (AR) within public debate.

304. The institutional framework for this process is clearly established in the rules and procedures of the Assembly ('*o Regimento da Assembleia*') and has been followed for many years. Thus, an "A" score is accorded to dimension (ii).

305. In accordance with the legally prescribed calendar, the Government presents its budget proposal to Parliament (AR) by the end of September. This schedule has been complied with in previous years and would normally provide two months for the Legislature to review the Budget proposal before voting on it in early December. However, since there were general elections in October 2014, the budget proposal for 2015 was tabled in February 2015 and approved in April 2015, which allowed only one month for the process of Legislative review. This fact, which is not usual in comparison with the normal calendar, determines that this dimension, (iii) should be evaluated with a "C".

306. The delegation of powers made by the Legislature (AR) to the government in the Annual Budget Law approving the OE allows the Government a wide scope of authority to introduce budget reallocations during the execution process, including the capacity to make transfers between horizontal and vertical budget lines, as well as across sectors). The AR is only required to vote again on the OE, if there is an increase in aggregate expenditures above the provisions initially approved.

307. It should be noted that the budgetary changes made by the Executive are set out in Information Annex 3 of the REO, as well as in the CGE. In the REO, an authorization order from the Minister of Finance is also included.

The enabling legislation is contained in paragraph 1 of article 34 of law N.º 9/2002, (the "SISTAFE Law") and must comply with the provisions of paragraphs 2, 3 and 4 of the same article.

308.Thus, the process for making budgetary amendments at the level of the Executive is transparent and follows clear rules but given the very wide powers of reallocation delegated to the Executive, the possibility is opened for substantial differences between the executed budget and the Budget approved by the Legislature. The evaluation of dimension (iv) is therefore a "C".

Comparison with 2010 assessment

309. The overall performance of this indicator was affected, on the one hand, by the more detailed analysis that the methodology requires regarding the dimension (i) and, on the other hand, due to the general election in 2014 which caused a delay in the submission of the OE to Parliament and a compression of the period normally allowed for Legislative scrutiny.

Prospects for the future

310. In the short term, the distortion to the normal calendar for budget review and approval created by the national elections has reduced the time available for Legislative scrutiny (dimension iii). However, the more significant concerns relate firstly to the need to include coverage of the medium term fiscal framework (CFMP) within the scope of legislative scrutiny and secondly to the need to consider limiting the extent of delegated powers granted to the Executive to make budgetary re-allocations during the budget execution process.

PI – 28: Legislative scrutiny of external audit reports

Indicator	Dimension	Assessment 2007		Assessment 2010		Assessment 2015	
PI – 28: Legislative scrutiny of external audit reports	(i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years).	**B**	C+	**B**	C+	**B**	C+
	(ii) Extent of hearings on key findings undertaken by the legislature.	**C**		**C**		**C**	
	(iii) Issuance of recommended actions by the legislature and implementation by the executive.	**B**		**B**		**B**	

PI-28 Indicator: 2015 Assessment

311.According to Law N.º 14/2014, the Administrative Court (TA) is required to provide an analysis, and subsequent issuance of opinion on the CGE, relating to the State's financial activities in the year to which the CGE relates, in the areas of revenue and expenditure, subsidies, tax benefits, credits and other forms of support granted by the State. It is this opinion of the TA on the CGE which is submitted to Parliament (AR) for consideration on an annual basis.

312.In relation to the external audits conducted by the TA under its ex post external control function ('*fiscalização sucessiva*'), the submission of these reports to Parliament (AR) is not required. Although there is no legal impediment to the AR requesting these external audit reports – once they have been formally reviewed and "judged" by the judges of the TA, the evaluation team were informed by the CPO and the TA that such requests are not a common practice. Regarding performance audits, newly issued regulations state that these should sent by the TA to AR but this procedure is not yet in force.

313. Thus, the analysis provided by the AR is exclusively related to the opinion issued by the TA on the CGE. This opinion is mandatory and should be submitted by the end of November of the year subsequent to the CGE analysed. As we noted in indicator PI-26, this schedule has been consistently fulfilled.

314. Nevertheless, the receipt by the AR of the CGE and the accompanying opinion of the TA occurs simultaneously with the period of review of the Executive's Budget proposal. The latter is required to be approved by the end of December, a process which takes up the full attention of the Legislature. For this reason, the adoption of the CGE and the consideration of the opinion of the TA on the CGE only occurs in the 1st session of the subsequent fiscal year (i.e. in March or April). As a result, there is a period of up to six months between the reception of the CGE, and the TA's opinion and its review by the Legislature. This justifies the maintenance of "B" score for dimension (i).

315. In contrast to the Legislative scrutiny of the budget, where the procedure is much more deep and detailed, the legislative review of the CGE is essentially done through the mandatory opinion of the TA, and the Assembly only convokes meetings with the Minister of Finance (accompanied by the respective staff) and not with sector ministries or other agencies. Therefore the dialogue maintained by the Assembly of the Republic is basically between the TA and the Government represented by the MF. In this case, the evaluation of the dimension (ii) is "C", given that in-depth hearings include the Minister of Finance only and no other sectoral ministries or government agencies.

316. Upon approval of the CGE, which is made by resolution of AR, several recommendations are issued to the Government by the AR, based largely on recommendations included in the TA's opinion on the CGE. The status of the implementation of the recommendations is reported in the GGE of the following year.

317. Regarding the level of follow-up to its recommendations, we were informed that CPO members made visits to relevant districts and institutions during the month of August to verify the implementation of recommendations. However, the evaluation team did not have access to the details of these visits. Moreover, there are no separate reports on progress with recommendations issued by the AR, or by the Executive itself until the new CGE is issued in the subsequent year.

318. Thus, the TA does issue recommendation in the presentation of its opinion on the CGE. These are generally approved by Parliament, with their implementation being reported upon in the CGE of the subsequent year. A review of successive CGEs provides evidence that some of these recommendations are acted upon by the Executive. We therefore accord a "B" for dimension (iii).

319. Nevertheless, it should be clearly stated that the nature of the recommendations included in the TA's opinion on the CGE (and generally approved by the AR) is limited to cross-cutting questions on the management of public finances. In terms of more detailed corrective measures, it is the TA itself – in its judicial capacity – that has to undertake the follow-up to the recommendations issued in its external audit reports of individual public entities. In this respect, the reservations expressed under indicator PI-26 over the quality of follow-up are a serious concern, given that the Parliament (AR) has a limited mandate in this area.

Comparison with 2010 assessment

320. There is no change regarding the previous assessment.

4.8. Donor practices

D-1: Predictability of Direct Budget Support

Indicator	Dimension	Assessment 2007		Assessment 2010		Assessment 2015	
D-1: Predictability of Direct Budget Support	(i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature (or equivalent approving body).	**A**	**A**	**A**	**A**	**B**	B+
	(ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates).	**A**		**A**		**A**	

D-1 Indicator: 2009 Assessment

321. The Direct budgetary support, including general budget support (GBS) and the Sectoral Support by provision of resources to the Common Fund. The disbursement forecast is normally provided by partners (PdCs) in July and reconfirmed in August after conducting an annual review (in March/April each year) where the previous year's performance is evaluated using the performance assessment framework. The information is made available in July when the institutions are supposed to prepare their budget proposals and, on the basis of the commitments, a plan indicating monthly disbursements is prepared in conjunction with the DNT.

322. In view of the information contained in the evaluations of the PAPs made by GdM, in two years out of three, the difference between the total estimated programme support and the real (paid) was above 5%, below 10%, deserving therefore the rating of "B" for this dimension (i).

D-1 Indicator	2012	2013	2014
Variation between the value of programme aid disbursed in the year n in relation to commitments made in year n-1	-3%	-7%	-8%

Source: The GdM Assessment reports for the PAPs related to 2012, 2013 and 2014

323. For the dimension (ii), the variation between values provided in the quarterly disbursement plan agreed with the MEF, and the actual amount paid, has fluctuated considerably, according to the data presented in the table below (which depicts only the general budget support, since for the Common Funds it is difficult for the MPF to achieve reliable information on the disbursement plans and their implementation).

Table 24: Comparison of annual Budget Support disbursements with forecasts (2012-14)

Ano / Trimestre	Previsão	Q1 Desembolso	%
2012	3.151.945.000	3.317.851.986	**105%**
2013	3.407.703.000	2.846.159.747	**84%**
2014	2.896.455.000	2.555.517.858	**88%**
Ano / Trimestre	Previsão	**Q2** Desembolso	%
2012	6.428.590.918	3.133.119.210	**49%**
2013	699.865.000	1.946.495.246	**278%**
2014	1.698.250.000	1.986.758.839	**117%**
Ano / Trimestre	Previsão	**Q3** Desembolso	%
2012	659.995.000	1.221.465.543	**185%**
2013	7.083.256.250	5.316.053.791	**75%**
2014	2.698.168.500,00	2.450.681.552,01	**91%**
Ano / Trimestre	Previsão	**Q4** Desembolso	%
2012	626.243.400	999.142.521	**160%**
2013	4.769.135.000	3.496.209.695	**73%**
2014	4.571.300.000,00	5.071.189.649,30	**111%**
Ano / Trimestre	Previsão	**TOTAL** Desembolso	%
2012	10.240.530.918	7.672.436.739	**75%**
2013	15.959.959.250	13.604.918.479	**85%**
2014	11.864.173.500	12.064.147.898	**102%**

Source: adaptation according to data about predictions and disbursements in the years 2012-14 provided by DNP

324. The analysis of disbursements planned and carried out by each quarter, the negative variation, i.e. below the planned disbursements, are situated below 25% for two of the three years examined. So the dimension (ii) is A, even though a significant proportion of GBS is disbursed above what was schedule, which is not necessarily a problem, but denotes some weaknesses in the financial programming of Cooperation Partners. There is also information on the performance of disbursements per month, which denoted evidence that compliance with the monthly calendar is more variable in relation to the quarterly trend: for 2012, 2013 and 2014 respectively, 47%, 31% and 25% of the disbursements have been carried out as agreed.

Table 25: Quarterly disbursement deviations in relation to the agreed schedule

	2012	**2013**	**2014**
Total Desvio Trimestral Negativo / Plano anual de desembolsos	**32%**	**23%**	**5%**
Total Desvio Trimestral Positivo / Plano anual de desembolsos	**11%**	**8%**	**7%**

Source: Database on forecasts and quarterly disbursements in the years 2012-14 provided by DNP

325. So, for this indicator the overall rating is "B", due to the MI rating methodology.

Comparison with 2010 assessment

326. This dimension decreased in comparison with the previous review, due to the deterioration of the predictability of Programme Aid.

D-2: Financial information provided by donors for budgeting and reporting on project and programme aid

Indicator	Dimension	Assessment 2007		Assessment 2010		Assessment 2015	
D-2: Financial information provided by donors for budgeting and reporting on project and programme aid	(i) Completeness and timeliness of budget estimates by donors for project support.	C	D+	C	D+	C	D+
	(ii) Frequency and coverage of reporting by donors on actual donor flows for project support.	D		D		D	

D-2 Indicator: 2015 Assessment

327. The evaluation of the annual reports prepared by Government partners over the past three years are detailed and render timely information about the support channeled by so-called program aid partners (PAPs) through GBS, sectorial support by means of common funds, and support for projects, with the latter represented on average mode, in the period under review, about 37% of the total support of the PAPs.

328. In terms of projects, funded either by donations such as external loans by the PAPs, as well as other international partners (including the so-called "non-traditional" partners of emerging economies), the information is not produced in a detailed and systematic manner to render the program support (especially the GBS).

329. Analyzing the data on the external component in OE and CGE, it is possible to realize that challenges still persist in ensuring the proper incorporation of information on projects in the budget cycle and using government systems and processes.

Table 26: Evolution of External Funding to the Budget 2012-2014

Componente Externa do OE (MZN 10^6)	2012 Orçamento	2012 Execução	Taxa de exec.	2013 Orçamento	2013 Execução	Taxa de exec.	2014 Orçamento	2014 Execução	Taxa de exec.
Donativos	34.719	27.332	**79%**	23.231	30.233	**130%**	30.401	24.106	**79%**
Consignados a projectos	25.020	18.355	**73%**	15.293	23.640	**155%**	22.198	13.737	**62%**
Não consignados (Apoio ao OE)	9.699	8.977	**93%**	7.938	6.593	**83%**	8.203	10.369	**126%**
Empréstimos	19.790	10.779	**54%**	34.645	18.971	**55%**	40.444	34.613	**86%**
Consignados a projectos	16.237	6.573	**40%**	26.473	11.767	**44%**	36.081	32.459	**90%**
Não consignados (Apoio ao OE)	3.553	4.206	**118%**	8.172	7.204	**88%**	4.363	2.154	**49%**

Fonte: CGE para os anos 2012, 2013 e 2014

330. As seen in the Table above, the execution rate against the budgeted external component in General, and for projects in particular has been extremely variable. From the data presented above, it is not possible to discern

any particular trend-positive or negative-in the period under review, except the finding that the rates are always very different from initial forecast. This denotes the continuing challenges in correct and timely incorporation of external component in OE, and/or the degree of reporting for projects implemented off-CUT.

331. The difficulties referred to above are recognized in the last Government assessment of the PAPs: "the data of the financial forecasts of the partners listed in OE (indicator 10) as well as actual disbursements recorded in the REO (indicator 11), are of questionable reliability and often irreconcilable with the data reported by the partners themselves" (PAP 2014 evaluation report, p24).

332. At the same time, the report acknowledges that part of the problem in the comprehensiveness and timeliness of budget is related to the sectors using bilateral cooperation, and, ultimately, the responsibility for the registration of this information in the OE is of the beneficiary and the sponsor should just inform the MEF about the intention to finance certain government project.

333. For this dimension, the rating previously granted will remain as "C".

334. Information on projects on-Budget and On-CUT can be extracted from the budget execution reports (REO) produced by DNCP. Even in cases where the projects are not executed by the e-SISTAFE but using mechanisms and procedures of the sponsor, projects may be recorded in the OE so that the financial information is captured later, and in aggregate manner, by the DNCP, through the incorporation of balance sheets that are reflected in REOs and CGEs.

335. According to the evaluation reports of the PAPs, direct budgetary support collected by REO represented 78% of the total disbursements of the PAPs to the Government in 2012, 87% in 2013, 80% in 2014. From this value, a part (estimated at around 55% of the total support of the PAPS) is performed via CUT/e-SISTAFE (mainly GO and Common Fund), which is automatically recorded and reported in REO, the rest is executed by means of projects. For these projects, estimated at around one third of support, there is no detailed information on the degree of reporting in the REO by means of incorporation of balance sheets which resulted in several interviews and has represented a challenge. An triggering event of the low implementation of external projects component, illustrated in the Table XX, is based on the absence of regular and timely accounting record of these projects in REO.

336. Furthermore, it should be noted that despite some improvement in the completeness of the REO, the coverage in terms of full support to the Government is not exhaustive (as illustrated in the PI-7). For example, in 2014, the REO has registered only 60% of the total foreign aid to the Government provided by "traditional" lenders (PAPs and associate members), valued at about USD 1,637 million (evaluation of the PAPs, p12).

337. In short, these findings, in liaison with the lack of reliable information about the degree of reporting projects, justify the maintenance of the rating achived in the previous review ("D").

Comparison with 2010 assessment

338. No alterations were recorded, due to a lack of detailed information about the reporting of external projects executed off-CUT.

Prospects for the future

339. Greater dissemination and awareness of the procedures to follow to ensure the correct and timely reflection of the main external projects in government budgetary documents, can in the future improve the performance of this indicator.

D-3: Proportion of aid that is managed in by use of national procedures

Indicator	Dimension	Assessment 2007	Assessment 2010	Assessment 2015
D-3: Proportion of aid that is managed in by use of national procedures	(i) Overall proportion of aid funds to central government that are managed through national procedures.	**D**	**C**	**D**

D-3 Indicator: 2015 Assessment

340. For the assessment of this indicator, the information used was also extracted from the PAP Government assessment, which enables the monitoring of the evolution of the use of national systems of PFM in the three-year period that was terminated. In the Table below is possible to notice a decrease of approximately 10 percentage points in the use of national systems. Since for the last financial year the average value of the direct support to the Government was executed by using one or more national systems of PFM, it fell short of 50 percent and the rating for this indicator is "D".

Table 27: Use of the national PFM system by external support to Government

PFM National System	2012	2013	2014
% of direct support to the Government that uses the CUT/e-SISTAFE (and national accounting procedures)	66%	54%	56%
% of direct support to the Government that uses the national procedures of accountability (financial reports)	59%	49%	38%
% of direct support to the Government that uses the national audit procedures	44%	33%	47%
% of direct support to the Government that uses the national procurement systems (procurement)	57%	50%	42%
Average	57%	47%	46%

Source: The GdM Assessment reports for the PAPs related to 2012, 2013 and 2014

Comparison with 2010 assessment

341. This dimension has suffered a deterioration, due in part to economic and political trends in some of the major countries that have led the PdC to change the support type given, which, incidentally, is also showed by the reduction of the PAPs group from 19 to 16.

ANNEX I: Summary of scores from the PEFA Assessment 2015, in comparison with 2007 and 2010

<table>
<tr><th>Indicator</th><th>Dimension</th><th colspan="2">Assessment 2007</th><th colspan="2">Assessment 2010</th><th colspan="2">Assessment 2015</th></tr>
<tr><td>PI – 1: Aggregate expenditure out-turn compared to original approved budget</td><td>(i) Difference between actual primary expenditure and the originally budgeted primary expenditure (i.e. excluding debt service charges, but also excluding externally financed project expenditure).</td><td colspan="2">B</td><td colspan="2">A</td><td colspan="2">A</td></tr>
<tr><td rowspan="2">PI – 2: Composition of expenditure out-turn compared to original approved budget</td><td>(i) Extent of the variance in expenditure composition during the last three years, excluding contingency items.</td><td colspan="4" rowspan="2">Not comparable</td><td>D</td><td rowspan="2">D+</td></tr>
<tr><td>(ii) The average amount of expenditure actually charged to the contingency vote over the last three years.</td><td>A</td></tr>
<tr><td>PI – 3: Aggregate revenue out-turn compared to original approved budget</td><td>(i) Actual domestic revenue compared to domestic revenue in the originally approved budget.</td><td colspan="4">Not comparable</td><td colspan="2">A</td></tr>
<tr><td rowspan="2">PI – 4: Stock and monitoring of expenditure payment arrears</td><td>(i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in stock.</td><td>A</td><td rowspan="2">B+</td><td>A</td><td rowspan="2">B+</td><td>A</td><td rowspan="2">D+</td></tr>
<tr><td>(ii) Availability of data for monitoring the stock of expenditure payment arrears.</td><td>B</td><td>B</td><td>D</td></tr>
<tr><td>PI –5: Classification of the budget</td><td>(i) The classification system used for formulation, execution and reporting of the central government's budget.</td><td colspan="2">B</td><td colspan="2">B</td><td colspan="2">B</td></tr>
<tr><td>PI – 6: Comprehensiveness of information included in budget documentation</td><td>(I) Share of the above listed information in the budget documentation most recently issued by the central government (in order to count in the assessment, the full specification of the information benchmark must be met).</td><td colspan="2">B</td><td colspan="2">A</td><td colspan="2">C</td></tr>
<tr><td rowspan="2">PI – 7: Extent of unreported government operations</td><td>(i) The level of extra-budgetary expenditure (other than donor funded projects) which is unreported i.e. not included in fiscal reports.</td><td>B</td><td rowspan="2">C+</td><td>B</td><td rowspan="2">B</td><td>A</td><td rowspan="2">B+</td></tr>
<tr><td>(ii) Income/expenditure information on donor-funded projects which is included in fiscal reports.</td><td>C</td><td>B</td><td>B</td></tr>
</table>

Indicator	Dimension	Assessment 2007		Assessment 2010		Assessment 2015	
PI – 8: Transparency of Inter-Governmental Fiscal Relations	(i) Transparent and rules based systems in the horizontal allocation among SN governments of unconditional and conditional transfers from central government (both budgeted and actual allocations).	A	C+	A	B	A	B
	(Ii) Timeliness of reliable information to SN governments on their allocations from central government for the coming year.	C		C		C	
	(iii) Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to sectoral categories.	D		C		C	
PI – 9: Oversight of aggregate fiscal risk from other public sector entities	(i) Extent of central government monitoring of AGAs and PEs.	C	D+	C	D+	C	C+
	(ii) Extent of central government monitoring of SN governments' fiscal position.	D		D		A	
PI – 10: Public access to key fiscal information	(i) Number of the above listed elements of public access to information that is fulfilled (in order to count in the assessment, the full specification of the information benchmark must be met).	B		B		B	
PI – 11: Orderliness and participation in the annual budget process	(I) Existence of and adherence to a fixed budget calendar.	A	B+	A	A	A	B+
	(ii) Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent).	A		A		A	
	(iii) Timely budget approval by the legislature or similarly mandated body (within the last three years).	C		A		C	
PI – 12: Multi-year perspective in fiscal planning, expenditure policy and budgeting	(i) Preparation of multi-year fiscal forecasts and functional allocations.	C	C+	C	C+	C	C+
	(ii) Scope and frequency of debt sustainability analysis.	A		A		A	
	(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure.	C		C		C	
	(iv) Linkages between investment budgets and forward expenditure estimates.	C		D		D	
PI – 13: Transparency of Taxpayer Obligations and Liabilities	(i) Clarity and comprehensiveness of tax liabilities.	B	B+	A	A	A	A
	(ii) Taxpayer access to information on tax liabilities and administrative procedures.	A		A		A	
	(Iii) Existence and functioning of a	B		A		B	

Indicator	Dimension	Assessment 2007		Assessment 2010		Assessment 2015	
	tax appeals mechanism.						
PI – 14: Effectiveness of measures for taxpayer registration and tax assessment	(i) Controls in the taxpayer registration system.	**B**	**B**	**B**	**A**	**B**	**B**
	(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations.	**B**		**A**		**B**	
	(iii) Planning and monitoring of tax audit and fraud investigation programs.	**B**		**A**		**B**	
PI – 15: Effectiveness in collection of tax payments	(i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years).	**D**	D+	**C**	C+	**D**	D+
	(ii) Effectiveness of transfer of tax collections to the Treasury by the revenue administration.	**B**		**A**		**B**	
	(ii) Frequency of complete accounts reconciliation between tax assessments, collections, arrears records and receipts by the Treasury.	**A**		**A**		**A**	
PI – 16: Predictability in the availability of funds for commitment of expenditures	(i) Extent to which cash flows are forecast and monitored.	**A**	C+	**A**	C+	**A**	C+
	(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment.	**B**		**B**		**B**	
	(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs.	**C**		**C**		**C**	
PI – 17: Recording and management of cash balances, debt and guarantees	(i) Quality of debt data recording and reporting.	**A**	**A**	**A**	**A**	**A**	**A**
	(ii) Extent of consolidation of the government's cash balances.	**B**		**B**		**B**	
	(iii) Systems for contracting loans and issuance of guarantees.	**A**		**A**		**A**	
PI – 18: Effectiveness of payroll controls	(i) Degree of integration and reconciliation between personnel records and payroll data.	**B**	**B**	**B**	**B**	**B**	**B**
	(ii) Timeliness of changes to personnel records and the payroll.	**B**		**B**		**B**	
	(iii) Internal controls of changes to personnel records and the payroll.	**B**		**B**		**B**	
	(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers.	**B**		**B**		**B**	
PI – 19:	(i) Transparency, comprehensiveness and competition	Not comparable				**B**	D+

Indicator	Dimension	Assessment 2007		Assessment 2010		Assessment 2015	
Transparency, competition and complaints mechanisms in procurement	in the legal and regulatory framework.						
	(ii) Use of competitive procurement methods.					D	
	(iii) Public access to complete, reliable and timely procurement information.					D	
	(iv) Existence of an independent administrative procurement complaints system.					D	
PI – 20: Effectiveness of internal controls for non-salary expenditure	(i) Effectiveness of expenditure commitment controls.	B	B	B	B+	B	C+
	(ii) Comprehensiveness, relevance and understanding of other internal control rules/procedures.	B		A		B	
	(iii) Degree of compliance with rules for processing and recording transactions.	B		B		C	
PI – 21: Effectiveness of internal audit	(i) Coverage and quality of the internal audit function.	B	B	B	C+	A	B+
	(ii) Frequency and distribution of reports.	B		B		B	
	(iii) Extent of management response to internal audit findings.	B		C		B	
PI – 22: Timeliness and regularity of accounts reconciliation	(i) Regularity of bank reconciliations.	B	B	B	B	B	B
	(ii) Regularity of reconciliation and clearance of suspense accounts and advances.	B		B		B	
PI – 23: Availability of information on resources received by service delivery units	(i) Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front-line service delivery units (focus on primary schools and primary health clinics) in relation to the overall resources made available to the sector(s), irrespective of which level of government is responsible for the operation and funding of those units.	D		D		D	
PI – 24: Quality and timeliness of in-year budget reports	(i) Scope of reports in terms of coverage and compatibility with budget estimates.	C	C+	C	C+	B	B
	(ii) Timeliness of the issue of reports.	B		B		B	
	(iii) Quality of information.	B		B		B	
PI – 25: Quality and timeliness of annual financial statements	(i) Completeness of the financial statements.	C	C+	B	C+	B	B+
	(ii) Timeliness of submission of the financial statements.	A		A		A	
	(iii) Accounting standards used.	C		C		B	

Indicator	Dimension	Assessment 2007		Assessment 2010		Assessment 2015	
PI – 26: Scope, nature and follow-up of external audit	(i) Scope/nature of audit performed (incl. adherence to auditing standards).	C	C+	C	C+	C	C+
	(ii) Timeliness of submission of audit reports to legislature.	B		B		B	
	(iii) Evidence of follow up on audit recommendations.	B		C		C	
PI – 27: Legislative scrutiny of the annual budget law	(i) Scope of the legislature's scrutiny.	A	B+	A	C+	B	C+
	(ii) Extent to which the legislature's procedures are well-established and respected.	A		A		A	
	(iii) Adequacy of time for the legislature to provide a response to budget proposals both the detailed estimates and, where applicable, for proposals on macro-fiscal aggregates earlier in the budget preparation cycle (time allowed in practice for all stages combined).	A		A		C	
	(iv) Rules for in-year amendments to the budget without ex-ante approval by the legislature.	B		C		C	
PI – 28: Legislative scrutiny of external audit reports	(i) Timeliness of examination of audit reports by the legislature (for reports received within the last three years).	B	C+	B	C+	B	C+
	(ii) Extent of hearings on key findings undertaken by the legislature.	C		C		C	
	(iii) Issuance of recommended actions by the legislature and implementation by the executive.	B		B		B	
D-1: Predictability of Direct Budget Support	(i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the legislature (or equivalent approving body).	A	A	A	A	B	B+
	(ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates).	A		A		A	
D-2: Financial information provided by donors for budgeting and reporting on project and program aid	(i) Completeness and timeliness of budget estimates by donors for project support.	C	D+	C	D+	C	D+
	(ii) Frequency and coverage of reporting by donors on actual donor flows for project support.	D		D		D	
D-3: Proportion of aid that is managed in by use of national procedures	(i) Overall proportion of aid funds to central government that are managed through national procedures.	D		C		D	

ANNEX II: List of documentation (Source of Information I)

Indicator	Document	Source
PI – 1: Result of the aggregate expenditure compared with the original budget approved	OE 2010, 2008, 2009 CGE 2010, 2008, 2009	DNCP
PI – 2: Composition of expenditure results compared with the original budget approved	OE 2010, 2008, 2009 CGE 2010, 2008, 2009	DNCP
PI – 3: Results of aggregate revenues compared with the original budget approved	OE 2010, 2008, 2009 CGE 2010, 2008, 2009	DNCP
PI – 4: Calculation and monitoring of late payment of expenditure	CGE2010-2008-2009 Annexed to CGE 2010-2008-2009 AT, DNT and DNCP Reports	DNCP; DNO; DNT; BM
PI –5: Budget classification	OE 2010-2008,2009, 2010	DNO; DNCP; UTRAFE
PI – 6: Scope of the information included in budget documents	Project Law OE 2008 (version presented to the AR)	AR (CPO) and MdF
PI – 7: Extent of unreported government operations	OE 2010-2008 - 2009; IMF Article IV and ROSC	DNO; DNT; IMF; BAG; ODAMOZ
PI – 8: Transparency of intergovernmental fiscal relations	Law and SISTAFE regulation; OE Law + MdF Instructions LOLE and LA; OE 2010,2008,2009 & 2010 (electronic version)	UTRAFE; DNO; MAE; CMM; MPD DNO; DNT; CMCM;
PI – 9: Aggregate fiscal risk surveillance of other public bodies	SISTAFE law; Studies and reports LOLE; LA	DNCP; BM; DNPE; DNP; DNT; IGEPE DNO, MPD
PI – 10: Public access to main fiscal information	Report and opinion on the General accounts of the State (2008 and 2010), OE (2010/5/6/7), REO 2008/6/7 (January and March) CGE 2010/5/6 Table of Contracts Awarded;	National Press, www.ta.gov.mz www.concursospublicos.gov.mz DNCP www.dN.ºgov.mz
PI – 11: Order and participation in the annual budgeting process	Federal Gazette 2010-2008-2009-2010 OE Methodology	DNO; MISAU; MEC Ntional Press
PI – 12: Multi-annual perspective on tax planning, spending and budget policies	CFMP; OE 2010-2008-2009 HIPC Analysis; IMF Article IV; Reports Documents of the Sectoral Strategies; PTIP;	DNO; DNP; DNAE
PI – 13: Transparency of tax obligations and responsibilities of taxpayers	Tax laws and regulations; Assessment reports	AT, PAPs (Tax)
PI – 14: Effectiveness of taxpayer registration and tax assessment measures	Tax laws and Regulations, Registration Systems; Guidelines, other material,	AT, PAPs (Tax)
PI – 15: Efficiency in tax collection	Reports of the DNT and AT IMF Article IV	AT, PAPs (Tax) and DNCP
PI – 16: Predictability of the availability of funds for expenditure commitments	OE Methodology; MdF Instruction;	UTRAFE; DNT; DNCP

Indicator	Document	Source
	Expenditures authorization	
PI – 17: Registration and management of cash balances, debts and guarantees	CGE 2007-2008-2009; Inventory of the public debt	DNT, DNCP,
PI – 18: Effectiveness of the control of payrolls		DNCP; DNT; MAE; ANFP; CPD, UTRAFE
PI – 19: Competition, value-for-money and control in the process of procurement (procurement)	Annual reports on Procurement; CPAR; UFSA Reports	UFSA; IGF; TA; CTA; DNPE; MISAU; MEC; PAPs (Procurement)
PI – 20: Effectiveness of the internal controls for non-salary expenses	OE Methodology; MdF Instruction; e-SISTAFE;	DNT; DNCP; UTRAFE; MEC, MISAU, IGF
PI – 21: Effectiveness of internal audit	IGF Activities Plan; Internal audit reports Monitoring or Response reports	IGF; MISAU; MEC; TA
PI – 22: Punctuality and regularity in the reconciliation of accounts	REO 2010-2008-2009-2010; Quarterly or annual reports Bank reconciliation reports	DNCP; DNT; DNO; MISAU; MEC; DPPF Maputo; Municipality of Matola
PI – 23: Availability of information resources received by the service units	ETSDS; PES balance sheet; Reports	MISAU; MEC; DNP; PAPs
PI – 24: Quality and timeliness of budget reports during the year	REO 2010-2008-2009; Quarterly or annual reports	DNO; DNCP; DNT; MISAU; MEC; DPPF Maputo; Municipality of Matola
PI – 25: Quality and timeliness of annual financial reports	CGE 2010-2008-2009	DNCP; IGF; TA
PI – 26: Scope, nature and follow-up of external audit	Activity reports of the TA; Opinion of the TA on the CGE 2010-2008-2009	TA; MISAU; MEC AR (CPO)
PI – 27: Parliamentary examination of annual budgetary law	OE Methodology SISTAFE law and regulations MdF and Budgetary Law instructions	AR (CPO)
PI – 28: Parliamentary examination of external audit reports	CPO Reports	Parliamentary Committee
D-1: Predictability of the Legal Support to the Budget	Disbursement plan	DNT
D-2: Financial information provided by donors to the budgeting and reporting support for projects and programs	Joint Review reports, PARPA and Strategic Matrix Reports, REO, Analysis and Information	DNT; DNCI; DNO; PAPs
D-3: Proportion of aid that is managed by the use and national procedures	Joint Review reports, PARPA and Strategic Matrix Reports, REO, Analysis and Information	DNT; DNCI; DNO; PAPs

ANNEX III: People Interviewed (Information Source 2)

Name	Position	Institution
Eneas da Conceição Comiche	CPO President	Parliament
Arlegia Ubisse	Assistant	Parliament
Jorge Cossa	Technician	Tax Authority
Mário Armando Ngunha	Technician	Tax Authority
Maurício Cumbi	Director (Planning and International Cooperation Office)	Tax Authority
Carla Marina Tímoteo	Director	Central Bank of Mozambique
Enrique Blanco Armas	Senior Economist	World Bank
Afonso Gule Júnior		CEDSIF
Guida Matias Mugalla		CEDSIF
José Jonas Elias Chalufo		CEDSIF
Kétmia Mahangue	SOM Director	CEDSIF
Luís Magaure		CEDSIF
Jorge Chicamba	Prov. Assessor Com.Imag	CEDSIF
Vírginia Videira	Dir Assessor. Geral	CEDSIF
Tricamo Taju	National General Deputy	CEDSIF
Herberto Monteiro	CEDSIF	CEDSIF
José Chalufo	CEDSIF technician	CEDSIF
Paula Monjane	Executive Director	CESC
Hermínia Timane	Deputy Attaché	M. da Vila de Boane
Eduardo Sengo	Economic Adviser	CTA
Lauzeta Cossa		DIC
Hassane Amade	Deputy Director	DNCP
Bernardino M. Matimbe		DNCP
Crístia Simbine		DNCP
Cândida Mula		DNEAP
Maria Helena Michau		DNEAP
Egidio Cueteia	Technician	DNEAP
Vasco Nhabinde	Director	DNEAP
Adriano Ubisse	National Director	DNIC
Nádia Hassamo	Technician	DNO
Nilvia Mamudo	Technician	DNO
Chamila Idrisse Aly	National National Budget	DNO
Orlando Penicela	Technician	DNP
Brighton Olímpio Vaz	Technician	DNP
Cristina Matusse	Director	DNP
Inalcídia Abílio dos Santos Araújo	Technician	DNPE
Zulmira Canana	Technician	DNPE
Albertina Furquia	Director	DNPE/UFSA
Helena Maria Francísco	Head of department	DNPE/UFSA
Elsa Albertina	Technician	DNPE/UFSA
Arsénio De Sousa Cuco	Technician	DNPE/UFSA
Imantina Roge Mauricio	Technician	DNPE/UFSA
Severino Sifuda	Technician	DNPE/UFSA
António Marinho Gravata		DNT
David Tableanga		DNT
Emília Coutinho	Technician	DNT
Francisco Banze		DNT

Name	Position	Institution
José Fote Nhacabande		DNT
Maria Isaltina de Sales Lucas	Director	DNT
Rudomina Bernardo	Provincial Dept.	DPPF- Matola
Moises S. Madade	Head of Department Public Chief	DPPF- Matola
Nuromomad Hassamo	Chief of Planning	DPPF- Matola
Ludovina Bernardo	National Geral	DPPF- Matola
André Manhice	Communications officer	FMO
Paula Monjane	Director	FMO
Lázaro João Moiane	National Internal Audit	Roads Funds
João S. Mutombene	National Financial Management	Roads Funds
Cecílio Grachane	President	Roads Funds
Ricardina Januário Paco	Technician	IGEPE
Helena Andela	National Finances	IGEPE
Hermógenes Canota S. Mário	National Participation Contr.	IGEPE
Faruk Remane	Executive Administrator	IGEPE
Abílio Inguane	National Plan. and Institutional Des.	IGEPE
Armindo Penicela Chivambo		IGF
Dique Virgílio Mateus		IGF
Estrela Eduardo Soda Charles		IGF
Carolina Passane	Director	IGF
Petronio Nhaca		MOPH
Ivan Estajo	Technician	Administrative Court
Luis Herculano	Secretary General	Administrative Court
Moisés Gomes Amaral	Auditor General	Administrative Court

ANNEX IV: Disclosure of Quality Assurance Mechanism

The following quality assurance arrangements have been established in the planning and preparation of the PEFA 2015 assessment report for the Republic of Mozambique. The final report is dated December 2015.

1. PEFA Assessment Management Organization

- Oversight Team (OT) – Chair and Members:

Chair:	Isaltina Lucas & Adriano Ubisse - Director the National Treasury Directorate, Ministry of Economy and Finance	
Members:	Elena Arjona Perez:	European Union - EU (DEVCO)
	Katrin Ochsenbein:	Swiss Development Cooperation - SECO
	Helena Grandão Ramos:	PEFA Secretariat

- Assessment Manager:

The management team was composed out of following members:

Mr. Felix Massangai: Head of Departmental of the National Treasury Directorate, Ministry of Economy and Finance;

Ms. Emilia Coutinho: National Treasury Directorate: Ministry of Economy and Finance;

Ms. Francesca Di Mauro, Mr. Geert Anckaert and Ms. Els Berghmans: EU Delegation Mozambique;

Mr. Robert Backlund: Embassy of Sweden in Mozambique.

- Assessment Team Leader and Team Members:

Team Leader:	Andrew Lawson,
Team Members:	Conceição Leão Baptista, Hernán Pflucker, Gonzalo Contreras Alessandro Pisani and Thomas Selemane

2. Review of the Terms of Reference

A draft version of the terms of reference was submitted on 18/12/2014 to the 4 members of the Oversight Team:

- Isaltina Lucas Director the National Treasury Directorate, Ministry of Economy and Finance
- Elena Arjona Perez: EU (HQ)
- Katrin Ochsenbein: SECO
- Helena Grandão Ramos: PEFA Secretariat

Comments from the 4 reviewers were received by 19/01/2015 and the revised version of the ToRs was shared with the Oversight Team on 27/01/2015 together with a response table for each comment. All reviewers had provided comments. The Government of Mozambique

provided oral comments during a consultation meeting and afterwards their agreement was formalised through an acceptance letter.
Date of final terms of reference: 27/01/2015 (version of the ToRs in annex V to the report)

3. Review of the Assessment Report

The draft report dated on 08/07/2015 was submitted to the 4 members of the Oversight Team for review. The annex V of the report containing the assessment based upon the 2015 methodology was submitted on 28/07/2015. Comments on this version of the report (both 2011 and 2015 methodology) were received from all reviewers on 14/08/2015.

A second version of the main report using the 2011 methodology, including a table showing response to all comments raised by the reviewers was circulated to all the members of the Oversight Team on 08/10/2015. The annex V with the application of the 2015 methodology was shared on 12/10/2015. For the annex with the 2015 methodology, a track changes version was shared by the team leader to show changes applied.

A public dissemination seminar was held on 02/11/2015 after which some additional inputs were provided to the Evaluation Team. Some of these were valid inputs for consideration (not affecting the overall scoring). Furthermore all (4) reviewers provided final review of their initial comments, highlighting some that were inadequately addressed to the evaluation team by 20/11/2015. The consultants delivered the final report on 05/01/2016.

4. This form, describing the quality assurance arrangements is included in the Final Report. The table with the comments and responses is included in Annex IV of the Portuguese version of Volume I of the report.

PEFA CHECK

The quality assurance process followed in the production of this report satisfies all the requirements of the PEFA secretariat and hence receives the "PEFA" check.

PEFA Secretariat
14th of January 2016