



Fiscus Public Finance Consultants,
Ltd.

2, Holloway Road, Wheatley,
Oxford, OX33 1NH,
United Kingdom

T: + 44 1865 437231
M: fermina.lawson@fiscus.org.uk



SAL & Caldeira – Advogados e
Consultores, Lda.

Av. do Zimbabwe, 1214, PO Box
2830
Maputo, Moçambique

T: +258 21 241400
M: mbibi@salconsult.com

Assessment of Public Finance Management in Mozambique, 2006

Based on the PEFA Methodology – Public Expenditure & Financial Accountability

Final Report, v.I – *English Version*

**Andrew Lawson, Mariam Umarji, João Guilherme and Célia
Chachine**

Report to the Ministério das Finanças, Unidade Técnica de
Reforma da Administração Financeira do Estado (UTRAFE)
and to the Programme Aid Partners (PAPs)

February 2008



Acknowledgements & Disclaimer

This report has been prepared by Andrew Lawson of FISCUS Public Finance Consultants, UK and Mariam Umarji, João Guilherme and Célia Chachine of SAL & Caldeira – Advogados e Consultores, Lda. (Mozambique), with the close support of UTRAFE and the Inspeção Geral das Finanças (IGF) of the Ministry of Finance, Government of Mozambique. It has been financed through the Common Fund established by the Development Partners to support the public finance management reforms being developed and coordinated by UTRAFE on behalf of the government of Mozambique.

This report is submitted as the first version of the Final Report, for review by the Steering Committee before distribution as the Final Report. It presents the results of the external assessment of Public Finance Management in Mozambique in the period up to the end of the 2006 budget cycle. The assessment applies the PEFA (Public Expenditure & Financial Accountability) methodology. It is based on (i) working meetings and semi-structured interviews conducted between 8th and 26th, October 2007, (ii) a detailed desk review of the data, official documents, legislation and other reports made available to the team, (iii) the analysis of the team and the comments received from the different institutions of the Government of Mozambique and the Development Partners involved in this exercise, and (iv) a final set of comments from the PEFA Secretariat in Washington D.C., concerning the application of the methodology and the quality of the evidence submitted in support of the individual scores for each indicator. All of these comments have been comprehensively addressed in this final version of the report.

We would like to thank His Excellency, Dr. Pedro Conceição Couto, Deputy Minister of Finance for the opportunity given to present the team and the objectives of our work. We would also like to express our special gratitude to Dr. Jorge Marcelino, the Inspector Geral de Finanças, who has led this exercise, assisted the team to establish a successful working schedule and helped to coordinate all the necessary inputs from Government.

Also a special word of thanks for Dr. Armino Penicela and Dr. Paulino Shakushasha of IGF, who worked with the team on a daily basis and to all the members of the PEFA Technical and Steering Committees who ensured that the necessary data and information was made available to the team.

Responsibility for the opinions presented in this Report rests exclusively with the authors and should not be attributed to the Government of Mozambique or its Development Partners. Any comments on the report should be directed to the authors at fiscus@fiscus.org.uk, and mbibi@salconsult.com.

Table of Contents

Acknowledgements & Disclaimer	2
Table of Contents.....	3
List of Acronyms	4
Summary Assessment	8
1. Introduction.....	13
2. Country Background	14
2.1. Economic Situation	14
2.2. Budgetary outcomes 2004 to 2006	15
2.3. The Structure of Government & the State Budget.....	17
2.4. Legal and Institutional Framework for PFM	18
3. Overview of PFM Reform Processes and Structures	22
4. Assessment of Public Finance Management at end 2006	27
4.1 Overview	27
4.2 Credibility of the Budget	29
4.3 Comprehensiveness and Transparency	34
4.4 Policy-based Budgeting	45
4.5 Predictability and Control in Budget Execution	50
4.6 Accounting, recording and reporting	70
4.7 External scrutiny and Audit.....	76
4.8 Donor Practices	81
Annex I: Summary of PEFA 2004 & 2006 by Performance Indicator.....	86
Annex II: Sources of information: a) Interviews Undertaken	92
Annex III: Sources of information: b) Documents Consulted	94
Annex IV: Data Tables.....	97
Table 1: Indicator PI-1.....	97
Table 2: Indicator PI-2.....	98
Table 3: Indicator PI-3.....	99

List of Acronyms

AfDB	African Development Bank Banco Africano de Desenvolvimento
AGA	Autonomous Government Agencies Instituições Autónomas do Governo
AR	National Assembly Assembleia da República
BER	Budget Execution Report Relatório de Execução Orçamental
CFAA	Country Financial Accountability Assessment Assessment da Responsabilidade Financeira do País
CFMP	Medium Term Fiscal Framework Cenário Fiscal de Médio Prazo
CGAF	Compte General de l'Administration des Finances Cômputo Geral da Administração Financeira
CGE	General State Accounts (Annual Report on Public Accounts) Conta Geral do Estado
COFOG	Classifications of Functions of Government Classificações das Funções do Governo
CPAR	Country Procurement Assessment Review Revisão da Assessment do Aprovisionamento do País
CUT	Single Treasury Account Conta Única do Tesouro
DAC	Development Assistance Committee (of OECD) Comité de Assistência ao Desenvolvimento (da OCDE)
DAF	Directorate of Administration and Finance (in line ministries) Direcção de Administração e Finanças
DFID	United Kingdom Department for International Development Departamento para o Desenvolvimento Internacional do Reino Unido
DNCP	Public Accounts National Directorate Direcção Nacional de Contabilidade Pública
DNIA	Tax and Customs National Directorate Direcção Nacional de Impostos e Alfandegas
DNIC	Investment and Cooperation National Directorate Direcção Nacional de Investimento e Cooperação
DNO	Budget National Directorate Direcção Nacional do Orçamento
DNPE	National Directorate for State Assets Direcção Nacional do Património do Estado
DNT	Treasury National Directorate Direcção Nacional do Tesouro
EC	European Commission Comissão Europeia
ETSDS	Expenditure Tracking and Service Delivery Survey Pesquisa de Localização da Despesa e Prestação de Serviços

FCA	Autarchic Compensation Fund Fundo de Compensação Autárquica
FIL	Local Initiative Fund Fundo de Iniciativa Local
G-17	Group of General Budget Support Donors Doadores que prestam Apoio Directo ao Orçamento
G-20	Group of Civil Society Organisations Grupo de Organizações da Sociedade Civil
GBS	General Budget Support Apoio Geral ao Orçamento
GFS	Government Financial Statistics Estatísticas Financeiras do Governo
GoM	Government of Mozambique Governo de Moçambique
HIPC AAP	Heavily Indebted Poor Countries Assessment and Action Plan Assessment e Plano de Acção para Países Pobres Altamente Endividados
IAASB	International Auditing and Assurance Standards Board Conselho de Auditoria Internacional e Controlo de Qualidade
IFAC	International Federation of Accountants Federação Internacional de Contabilidade
IGEPE	Institute for Management of State Corporate Investments Instituto de Gestão de Participações do Estado
IGF	General Inspectorate (Internal Audit) Inspecção-geral de Finanças
IMF	International Monetary Fund Fundo Monetário Internacional
INTOSAI	International Organization of Supreme Audit Institutions Organização Internacional das Instituições Supremas de Auditoria
IPSAS	International Public Sector Accounting Standards Padrões Internacionais de Contabilidade Pública
ISPPIA	International Standards for the Professional Practice of Internal Auditors Padrões Internacionais de Práticas Profissionais para Auditores Internos
JDR	Joint Donor Review Revisão Conjunta dos Doadores
JR	Joint Review (of PARPA implementation) Revisão Conjunta
MDA	Ministries, Departments and Agencies (Budget-holding entities) Ministérios, Departamentos e Instituições
MEC	Ministry of Education and Culture Ministério de Educação e Cultura
MISAU	Ministry of Health Ministério da Saúde
MoF	Ministry of Finance Ministério das Finanças
MoU	Memorandum of Understanding Memorando de Entendimento
MPD	Ministry of Plan and Development

	Ministério do Plano e Desenvolvimento
MTEF	Medium-Term Expenditure Framework Enquadramento de Meio Prazo das Despesas
OCDE	Organisation for Economic Co-operation and Development Organização para a Cooperação Económica e Desenvolvimento
ODI	Overseas Development Institute
PAF	Performance Assessment Framework Quadro de Assessment de Desempenho
PAPs	Programme Aid Partners Parceiros Ajuda aos Programas
PARPA	Poverty Reduction Action Plan Plano de Acção para a Redução da Pobreza Absoluta
PE	Public Enterprise Empresa Pública
PEFA	Public Expenditure and Financial Accountability Despesa Pública e Contabilidade Financeira
PER	Public Expenditure Review Revisão das Despesas Públicas
PES	Social and Economic Plan Plano Económico e Social
PETS	Public Expenditure Tracking Survey Pesquisa de Localização das Despesas Públicas
PFM	Public Finance Management Gestão das Finanças Públicas / Gestão Financeira Pública
PFM-PR	PFM Performance Report Relatório de Desempenho da GFP
PI	Performance Indicator Indicador de Desempenho
PRGF	Poverty Reduction & Growth Facility (IMF) Redução de Pobreza & Facilidades de Crescimento (FMI)
PRSC	Poverty Reduction Support Credit (World Bank) Crédito para Apoio à Redução da Pobreza (Banco Mundial)
RA	Revenue Administration Administração Tributária
ROSC	Report on Standards & Codes (IMF diagnostic report on PFM) Relatório de Padrões e Códigos (FMI Relatório de Diagnóstico da GFP)
SA	Standardized Assessment Assessment Padrão
SAI	Supreme Audit Institution Instituição de Auditoria Suprema
SAL	SAL Consultoria e Investimentos Lda.
SDC	Swiss Development Cooperation Cooperação Suíça
Sida	Swedish International Development Cooperation Agency Agência Sueca para o Desenvolvimento Internacional e Cooperação
SISTAFE	State Financial Administration System Sistema de Administração Financeira do Estado

SN	Sub-National (Government) Sub-Nacional (Governo)
SWAP	Sector-Wide Approach Programme Programa de Abordagem dos Sectores
TA	Mozambique Supreme Audit Institution / Administrative Court Tribunal Administrativo
UGE	Budget management and executing entity Unidade Gestora Executora
UN	United Nations Nações Unidas
UNDP	United Nations Development Programme Programa das Nações Unidas para o Desenvolvimento
URTI	Technical Unit for Internal Revenue Reform Unidade de Reforma Tributária dos Impostos Internos
UTRAFE	Technical Unit for State Financial Administration Reform Unidade Técnica das Reformas da Administração Financeira do Estado
UTRESP	Technical Unit for Public Sector Reform Unidade Técnica de Reforma do Sector Público

Summary Assessment

This draft report provides a ranking of the status of the PFM systems and processes of Mozambique, up to the conclusion of the 2006 budget cycle, taking account of the accounting and audit information on past years produced during 2007. It is based upon the use of the PEFA methodology and thus provides a direct point of comparison with the 2004 PEFA. Mozambique is one of the first countries in the world to have completed two PEFA assessments and has thus created a robust basis for assessing the progress over time in the implementation of its PFM reforms. The next PEFA assessment is scheduled to take place during 2010, covering the completed 2009 budget cycle.

The report includes an assessment of the status of PFM systems and processes at end 2006, an analysis of the changes noted between 2004 and 2006 and a review of the trends emerging during 2007. This version has benefitted from comments by the Government of Mozambique, its Development Partners and by the PEFA Secretariat in Washington D.C. It will be publicly presented in Maputo on 4th, March 2008 where further comments will be invited from these groups as well as from academics and civil society observers. It will be issued in its final form in March 2008.

(i) Key changes over 2004 to 2006

Significant improvements in the quality of PFM systems and processes have been achieved between 2004 and 2006, as measured by the PEFA methodology. This is shown in detail in Annex One and in summary graphic form in Figure I below¹. The most significant improvements have come in the following areas:

- Payroll, procurement and internal controls (Indicators PI 18-21);
- Cash management (Indicators PI 16 & 17)
- Donor practices (Indicators D1-3)
- Revenue collection & management (Indicators PI 13-15);

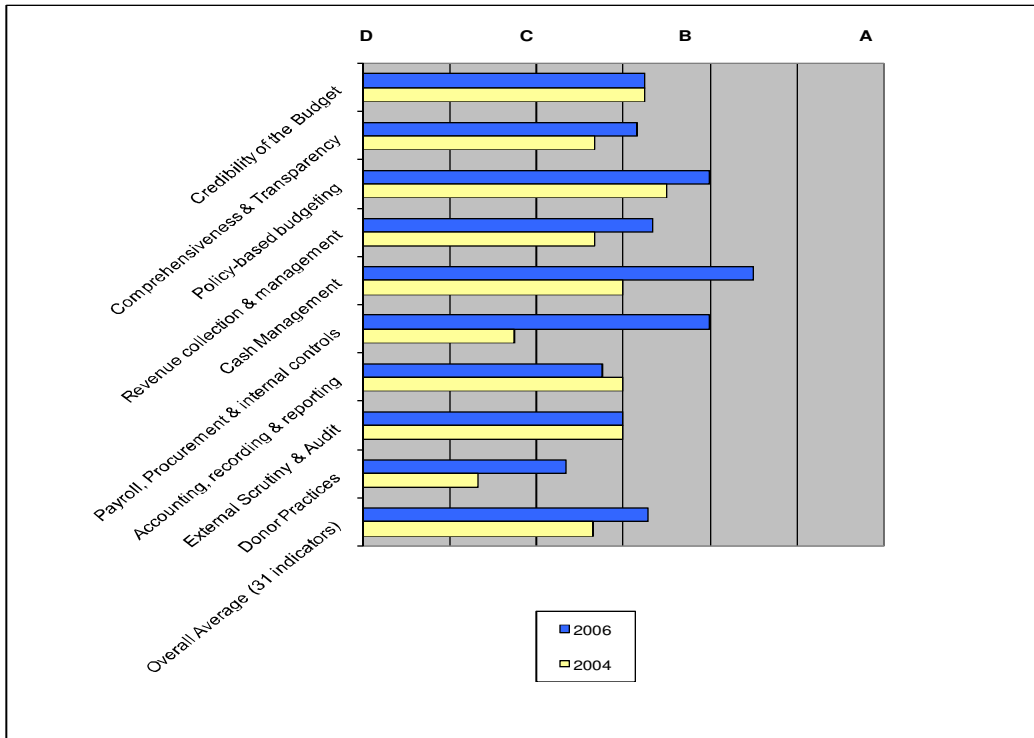
The improvement in Donor practices is most notable in relation to the predictability of budget support disbursements, where there have been major improvements with significant positive effects for treasury management. The recording of budget allocations and expenditures for externally financed projects has also improved with the development of the ODA-MOZ data-base, although many projects still remain off-budget. There have also been positive changes in Comprehensiveness & Transparency (PI 5-10) and in the quality of Policy-based Budgeting (PI 11 & 12).

These improvements have, in some cases, come simply as the result of small managerial and administrative improvements but most have been driven by the ongoing programmes of reform to

¹ The graphical presentation is derived by assigning a numerical value (from 1 to 7) to each possible score in the PEFA methodology (D, D+, C, C+, B, B+, A) and then averaging across each area of assessment.

public finance management systems. Especially important have been the reforms to revenue collection and management, to procurement, and to financial management deriving from the ongoing implementation of e-SISTAFE. However, there have also been ad-hoc actions taken in other areas – notably the census of public servants – which have impacted positively. Some of these resulted directly from the review of the results of the 2004 PEFA and the corrective actions agreed at that time by Government. Most reforms were already under implementation or at advanced stages of design in 2004, which underlines the fact that the improvements observed in 2006 are for the most part the fruit of investments undertaken much earlier.

Figure 1: Mozambique: Comparison of PEFA scores 2004 and 2006²



Taken as a whole, the indicators covering accounting, recording and reporting appear to have deteriorated slightly but here the grouping of indicators is deceptive. There have been improvements in the timeliness and regularity of accounts reconciliation and in the quality and timeliness of in-year budget reports but these have been offset by the fact that with no Public Expenditure Tracking Survey (PETS) completed in the last three years, the score on information available from service delivery units has declined. A PETS in education is planned for 2008.

² Indicators are grouped as follows: Credibility of the budget – PI 1-4; Comprehensiveness & Transparency – PI 5-10; Policy-based budgeting PI 11&12; Revenue collection & management PI 13-15; Cash management PI 16 & 17; Payroll, procurement & internal controls PI 18-21; Accounting, recording and reporting PI 22-25; External scrutiny and Audit PI 26-28; Donor Practices D1-3.

No improvements are recorded in external scrutiny and audit but again the score is somewhat deceptive. There have been improvements in the coverage of external audit but these have not been of a sufficient scope to raise the aggregate score. The building up of the external audit capacity of the *Tribunal Administrativo* requires highly skilled human resources and is necessarily a slow process in Mozambique. More worrying is that the quality of follow-up to internal and external audit reports has improved only modestly. There is the scope for achieving much greater impact from audit work if more attention could be given to follow-up, even at the expense of reducing its coverage.

The main area where the desired improvements have not been registered is in relation to the credibility of the budget, as measured by the consistency of actual expenditures and revenue collections as compared with originally approved budgets and projections. The relatively poor scores registered in 2004 have not been improved upon at all. This is worrying because while improvements in financial control and reporting are highly desirable, the ability of a budget to make available approved resources in a predictable manner is fundamental. If a budget does not have this basic level of credibility and predictability, then it is difficult for budget managers to deliver services efficiently and to achieve value for money.

In part, the low scores can be explained by the fact that revenue reforms (particularly in 2004 and 2005) created difficulties in accurately estimating tax collections; the fact that 2005 was a post-election year was also a complicating factor because it led to major revisions to the budget during the process of execution. However, at the organisational level, high discrepancies between expenditures and originally approved budgets continued into 2006, when estimates both of budget support disbursements and of domestic revenue collections proved far more accurate. This is indicative of continuing problems in the budgeting of expenditures. It may be that some wholly new activities are being included within the budget during the execution process but we believe that the primary problems derive from the fact that: a) planned activities are not being properly costed during budget preparation, meaning that the level of resources approved is not sufficient for their implementation; and/or b) sector ministries are responding to reductions in budget ceilings (during the preparation process) not by cutting activities but rather by trying unsuccessfully to trim costs. These are serious problems which urgently demand closer analysis and corrective action during 2008 and beyond.

(ii) Status of PFM in 2006 and its significance for budgetary outcomes

What can we say about the relative level which PFM systems in Mozambique have now reached? And what does this imply in terms of its ability to achieve the objectives of an effective PFM system? Effective PFM systems should be able to achieve three objectives simultaneously: the maintenance of aggregate fiscal discipline, the allocation of public resources to agreed strategic objectives and the efficient delivery of services. The necessary control and reporting systems to achieve the first objective of fiscal discipline are reasonably well established and, indeed, Mozambique has a good record of macro-economic management. Debt and treasury management systems are strong and the

improvement in financial control which e-SISTAFE has permitted makes major fiscal slippages less likely. However, the quality of oversight of fiscal risks from public sector entities remains weak and, with the expanding scope of public sector actions in the natural resource sectors, this is an area of vulnerability whose importance is increasing. There is a related problem of a lack of transparency in this sector.

The 2004 PEFA drew particular attention to the weaknesses identified in internal control systems, especially in control over the payroll, over expenditure commitments and over procurement processes. Significant improvements have been made in each of these areas. They remain to be consolidated and completed but the degree of control is now considerably stronger. A higher proportion of public acquisitions is now made by competitive tender; there is now a validated independent personnel data base against which the payroll can be reconciled (to eliminate “ghosts” and double entries) and it is now virtually impossible to make a commitment without a prior budget allocation or a payment without a commitment. With these controls in place, efficiency and value for money in service delivery are now more likely to be achieved.

In Mozambique it would seem that it is the mechanisms for strategic allocation of resources which are most lagging behind. The strongest evidence of this is the high variance between budgets and actual expenditures at the institutional level. An examination of the structures for policy-based budgeting and the mechanisms for classification of the budget gives a sense of where the problems lie. Mozambique now has a CFMP which is approved at the political level (by the *Conselho de Ministros*) and provides an operational mechanism for programming spending over the medium term. This is an important achievement in itself but the quality of future projections is weak: it has not yet proven possible to provide accurate estimations of the future cost implications of Government policies. One part of the reason is that, in the absence of a programmatic classifier or a detailed functional classifier, it is not possible to use the budget structure to cost out the policies and programmes being conducted within public institutions: the budget only shows an organic and economic classification.

The decision has been taken to introduce a programme classification system on a pilot basis from 2008 and comprehensively across Government from 2009. This is an important step forward, which should assist in addressing these weaknesses and, over time, in converting the Mozambican system into an effective policy-based budget, able to allocate public resources to agreed strategic priorities. However, the initial proposals on the structure of programme budgeting are not consistent with best international practices and should be comprehensively reviewed before implementation begins.

(iii) Priorities for 2008 and beyond

Mozambique has reached a situation where its PFM reforms – especially in financial management, procurement and revenue administration, are beginning to reap genuine benefits. The first priority is to complete and consolidate these reforms. In each of these areas, much remains to be done and the

gains achieved remain vulnerable until implementation across government has been completed. It will be important in the next two years to keep the accent firmly upon implementation of the core elements of these systems, avoiding the pressures to design new refinements and extend the scope of reforms. For the e-SISTAFE system, for example, this should mean focussing first on completing the roll-out amongst the entities of central government and consolidating the use of the direct execution modality. In order to facilitate the focus on implementation, we would recommend that beyond normal monitoring and review processes, there should be no significant external evaluation activities in these three areas during 2008. However, we recommend that in 2009 comprehensive external reviews of the new systems and practices should be undertaken with regard to procurement and revenue administration to take stock of progress, ensure that legal and procedural improvements are feeding through into actual practices and to consolidate and build upon the gains made.

The strengthening of the budget process through the introduction of a programme classification is the next big step, where some of the preparatory groundwork has already been laid. Our impression is that the magnitude of this step has not been fully appreciated. It is essential that firstly the programme concept should be defined simply, effectively and in line with best international practice, and secondly that there should be extensive support across central government agencies to assist its adoption. We are not convinced that either of these pre-conditions is yet in place and we would recommend a review of proposals in early 2008 to ensure a clear and realistic programme of work is put in place.

The problem of poor oversight of fiscal risk was raised as an issue in 2004 and, unfortunately, it has proven difficult for the Government to achieve improvements in this area. The main problem is that due to a lack of consistency (and sometimes a lack of clarity) in the reporting rules for different types of public enterprises, semi-autonomous bodies and private companies with minority government ownership, it is not possible to generate a consolidated annual report on the assets and liabilities of the public sector and on the risks these might represent for the State. Since 2004, there has been an expansion in the level of state holdings in the natural resource sector (notably in oil and gas) which makes this lack of effective oversight a more serious matter of concern. We recommend that the Minister of Finance should establish an appropriately selected task force to consider this question and put in place a concrete plan of action to be followed over 2008 and 2009.

Finally, we would recommend that continued attention is given to the improvements in reporting and follow-up identified in different parts of this report. More use should be made of public entity web-sites for dissemination of budget and accounting documents and more attention should be given to the comprehensiveness, timely updating and user-friendliness of reports. By and large, these are 'quick wins' which are not very demanding of administrative time and can help strengthen the Mozambican PFM system.

I. Introduction

1. This document comprises the Final Report of the assessment of Public Finance Management in Mozambique. It provides a ranking of the current status of the PFM systems and processes up to the end of the 2006 budget cycle³, following the PEFA methodology. It includes a description of past and current PFM reforms, an overview of their impact over 2004 to 2006 and an assessment of likely progress up to the end of 2007. The assessment has been undertaken by a team of consultants from FISCUS, Limited – Public Finance Consultants (United Kingdom) and from SAL & Caldeira – Advogados e Consultores, Lda. (Mozambique), with the close support of UTRAFE and the Inspeção Geral das Finanças (IGF) of the Ministry of Finance.
2. The main GoM partner for the PFM Assessment has been the Ministry of Finance, who nominated IGF as the government focal point for the process. IGF has coordinated Government's participation and input into the PFM Assessment. Most of the relevant government actors have been involved from the beginning of the exercise, and most of these received prior training in the use of the PEFA methodology. Beyond IGF, these included other key departments in the Ministry of Finance and the Ministry of Planning and Development. However, in contrast to the PEFA exercise undertaken in 2005/06, it was not possible during this exercise to meet with the *Tribunal Administrativo*, although they provided comments on the draft report, of which account has been taken in this Final Report.
3. A Technical Committee was established, with a membership drawn principally from the technical staff of the key departments of MoF and MPD. This committee met on weekly basis during the field phase of the exercise to discuss the results generated by the consultancy team and to facilitate access to additional relevant information. A Steering Committee was also established which, as an important reference group of the senior managers (*Directores Nacionais*) of MoF and MPD, was responsible for the management of the exercise and for the validation of the results obtained. This Steering Committee included two representatives of the Development Partners.
4. The Steering Committee coordinated submission of a comprehensive set of comments from Government and Development Partners on the first draft version of the report (prepared in Portuguese). On the basis of these comments, a second draft version of the report was prepared in English, which was submitted to the PEFA Secretariat in Washington D.C. for their comments on the application of the methodology and the quality of the evidence provided in support of the individual scores. This final version of the Report includes all the necessary additions and adjustments required in response to the comments of the PEFA Secretariat.

³ The assessment has utilised the accounting and audit information submitted during 2007 referring to earlier fiscal years. However, as the majority of the PEFA indicators require analysis of information from a complete budget cycle, the assessment is best considered as representing the status of systems at end 2006.

2. Country Background

2.1. Economic Situation

5. Mozambique is a SADC member country located in the south of Africa, and has borders with South Africa (its largest trading partner), Swaziland, Zimbabwe, Zambia, Malawi and Tanzania. The country has an estimated population of 20.4 million people⁴ and a GDP per capita estimated at US\$ 318⁵. Following a protracted civil war, over 1995 – 2005, it achieved substantial improvements in its economic performance, supported by high levels of donor assistance. Real GDP growth averaged 8 % per year over the period (6 % in per capita terms), which permitted a reduction in the proportion of the population living in absolute poverty from 69 % in 1997 to 54 % in 2003.

6. Despite external shocks such as the high price of oil, the national economy has continued to register high rates of economic growth, accompanied by a climate of political and macroeconomic stability. GDP growth was estimated at 6.2% in 2005 and 8.5% in 2006 and is projected at 7.0 % for 2007. (IMF, 2007.) Economic growth has been driven by (i) extensive foreign direct investment in mega projects (bauxite processing, titanium extraction, coal, oil & gas) and in large scale exploitation of agricultural products of high value such as cashew nut, cotton, sugar and tobacco, (ii) favourable agricultural growth (in 2006 rain was plentiful and agricultural inputs were available on time) and (iii) infrastructure rehabilitation projects (including rehabilitation of the transport network, and urban regeneration projects – all with substantial support of external Development Partners).

7. However, in so far as the mega projects generate limited effects on the rest of the economy and contribute little to employment generation and to the growth of the tax base (due to the highly favourable tax regime), there remain serious challenges to the promotion of balanced growth and poverty reduction. Continued improvements in the transport system (especially the railways and ports) and in access to energy as well as more general reductions in the costs of doing business are decisive factors in this equation.

8. The national poverty reduction strategy (PARPA - Action Plan for the Reduction of Absolute Poverty II) reflects this climate of stability and optimism and foresees a reduction of the incidence of poverty from 54% to 45% in 2009. The Government plans to implement a second set of structural reforms that will allow it to build upon the favourable macroeconomic climate. The main targets of these reforms are the public sector, fiscal policy, governance and the business environment (including the creation of a favorable environment for small and medium sized enterprises). Efforts are also being made to broaden the tax base (in order to capture the

⁴ Second National Population Census, INE, 2007

⁵ World Economic and Financial Surveys, Regional Economic Outlook, Sub Saharan Africa, IMF, October 2007.

informal sector and the extractive industries). Spending in the designated priority sectors of the PARPA is also growing funded by the increasing flow of foreign aid and from resources made available through debt relief under the MDRI - Multilateral Debt Relief Initiative.

9. Progress in other areas of structural reform has been slow and there remain significant constraints on the development of the private sector and the reform of the judicial system. Furthermore, institutional and capacity constraints continue to hinder the delivery of basic services (notably water and health care services) so that many important challenges remain.

2.2. Budgetary outcomes 2004 to 2006

11. Mozambique has generally maintained a good reputation for macroeconomic management. As may be seen in Figure 2 below, following some slippage in the election year of 2004, Government was able to restore the aggregate fiscal deficit after grants to more sustainable levels in 2005 and 2006. Simultaneously, it was able to make sharp reductions in the stock of domestic debt. This was in part a consequence of tighter control of capital expenditure during 2005 but also due to improvements in domestic tax collection and expanded grant financing⁶, notably through the MDRI flows received in 2006, amounting to 1.9 % GDP.

Figure 2: Summary of Central Government Fiscal Operations 2004-2006 (% of GDP)

Budget	2004	2005	2006
Total Revenue and Grants	20.1	19.9	23.9
Total Revenue	12.6	13.6	14
Grants	7.5	6.3	9.9
Total Expenditure and net lending	24.7	22.2	25.4
Expenditure excluding Interest	23.7	21.4	24.7
Interest on Public Debt	1	0.8	0.7
Aggregate deficit (after grants)	-4.6	-2.3	-1.5
Primary Fiscal Deficit	-3.6	-1.5	-0.8
Net Financing	4.6	2.2	1.5
External borrowing	2.8	3.2	4.5
Domestic borrowing	-0.5	-1.5	-3
HIPC transfers by Central Bank	0.4	0.2	0
Privatization receipts	1.9	0.3	0
Aggregate deficit (before grants)	-12.1	-8.6	-11.4

Source: IMF, Article IV Consultations, 2007

⁶ Project grants fell from 4.6 % of GDP in 2004 to 3.1% in 2005 before bouncing back to 4.9 % in 2006. GBS grants remained broadly stable at around 3% GDP.

11. Total domestic revenue increased by approximately 1.5% of GDP over the two year period from 2004 to 2006. This was principally the consequence of a structured programme of tax reforms, involving wide-ranging legislative and organisational changes, which have permitted an expansion in the number of taxpayers, increased collection of previously unpaid taxes, elimination of unnecessary customs exemptions and a tightening of border controls. Non-tax revenues have also been significant, arising principally from payment of dividends for State shareholdings in private (mainly natural resource) companies. The concession fee of US \$123 million (1.9 % GDP) for the granting of the Moatize coal mine concession is recorded as a privatization receipt in 2004. By agreement with the IMF, the authorities placed this fee in an offshore account, from which interest has subsequently been drawn.
12. Notwithstanding the positive improvements in domestic revenue collections, the role of external grants in the maintenance of fiscal balance remains crucially important. Essentially, Mozambique has been able to control its internal public sector borrowing requirements only through a high level of dependence on external grant aid and concessional loan financing. More than 50% of total public expenditure is foreign financed. The aggregate fiscal deficit after grants fell below 2% of GDP in 2006 but this masks the high fiscal deficit before grants which remained above 11 per cent of GDP.

Figure 3: Economic classification of Central Government Spending (% of GDP)

Budgetary Allocations	2004	2005	2006
Total Expenditure and net lending	24.5	22.1	25.1
Current Expenditure	14.3	13.4	13.2
Wages and Salaries	6.9	6.8	6.7
Goods and Services	3.5	3.2	3.2
Interest on Public Debt	1.0	0.8	0.7
Transfers	2.8	2.6	2.5
Capital Expenditures	9.4	8.2	11
Net lending	0.8	0.4	0.9

Source: IMF, Article IV, 2007

13. The changing economic composition of spending has reduced the vulnerability of the public sector to sudden reductions in external funding. Current expenditure has fallen from 14.3 % of GDP in 2004 to 13.2 % in 2006. With domestic revenue collections reaching 14 % of GDP in 2006, a positive domestic current primary balance has been achieved for the first time in the post civil war period. The continuing high levels of external finance are therefore predominantly financing investment spending, and the reduction in the stock of domestic debt.
14. The allocation of resources to major economic and social pillars has been based upon the definition of priorities within the PARPA and the 5-year *Programa do Governo*. As may be seen

from Figure 4, resources have been allocated primarily to the areas of human capital (education, health, water and sanitation), economic development (agriculture, industry, energy, roads, commerce and tourism), and Governance and Justice, although there have also been significant allocations to the priority cross-cutting issues (HIV / AIDS, Science and Technology, Environment, Gender, Demining and Nutrition). In 2005 and 2006, overall spending on the priority sectors has comfortably exceeded the target of 65 % of total discretionary expenditure. (total expenditure less interest payments.)

Figure 4: Public spending in the priority sectors (% total discretionary expenditure)

Public Expenditure in the priority sectors	2004	2005	2006
Education	20.9	19.9	20.1
Health	10.5	12.7	14.6
HIV/AIDS	0.4	0.7	1.5
Infrastructure	13.2	18.7	16.4
Agriculture and Rural Development	4.4	3.9	3.4
Governance and Justice	9.7	8.9	12.5
Other Priority Sectors	3.9	2.2	1.1
Sub-total priority sectors	63	67	69.6

Source: IMF, Article IV, 2007

15. The level of transfers to the lower levels of government, including the District, has also grown as part of the process of decentralisation and devolution. From 2006 onwards, each district has received Mts 7 million from central government (and an additional Mts 3 million granted by the World Bank to a selected set of districts - 49 of 131 districts) for projects to generate income, food and employment and on which each district has the right to decide on their own priorities. (This is classified within the Governance and Justice priority sector, as decentralisation spending is included within governance.)

2.3. The Structure of Government & the State Budget

16. The Government of Mozambique has only two tiers and concentrates the majority of spending within the National Government. The State Budget (OE) includes three types of institutions⁷:
- Central Government entities, including the 'Powers of the State' (Office of the President, Cabinet of the Prime Minister, Assembly of the Republic and the Courts) and 23 ministries;
 - Geographically localized (deconcentrated) State Governance entities: the 11 provinces and 131 districts⁸;

⁷ See, IMF (August, 2007), Report on the Observance of Standards and Codes (ROSC) – Fiscal Transparency Module.

⁸ The number of districts is commonly listed as 128 because 3 of them have geographical boundaries which overlap with 3 autarchias. These 3 entities act as districts in respect of the deconcentrated functions financed by the central government and as autarchias in respect of other competences.

- Semi-autonomous institutions of the State, which are legally autonomous in respect of administrative, financial and property matters but cannot actuate that autonomy because they are unable to finance at least two thirds of their expenses from internally generated revenues⁹.

Figure 5: National & Sub-National Government Entities (as % total expenditure)

Description		N.º Entities	Recurrent		Investment		Total Expenditure	
			%	Amount	%	Amount	%	Total
National Government	Central	115	54	13,883	89	16,498	69	30,381
	Provincial	11	43	10,860	6	1,067	27	11,927
	District	128	2	525	5	899	3	1,424
Municipalities *		33	1	260	1	171	1	431
TOTAL			100	25,528	100	18,635	100	44,163
* <i>Autarquias</i>								

Source: Budget Execution Report IV 2006, January to December 2006

17. The State Budget (OE) also includes transfers to a) autonomous institutions of the State, which are in a financial position to enjoy full autonomy and which undertake non-commercial activities (institutes, funds, etc); b) 33 *autarquias* (municipalities), and c) public firms, in receipt of transfers or subsidies. The *autarchias* are fully autonomous in respect of administrative, financial and property matters, being responsible to locally elected assemblies. There are proposals for creating new locally elected assemblies within the districts but for the moment, these operate as deconcentrated entities, responsible to the appointed Provincial Governors. The majority of the spending, which geographically speaking takes place at the district level, falls under the budget authority of the Province, in particular payment of teachers' and health workers' salaries. Similarly, medicines, educational materials and many other supplies used at the district level are procured at the provincial or national levels.

2.4. Legal and Institutional Framework for PFM

18. The legal framework for public finance management consists of four groups of laws and regulations, which focus on the following areas:
- The SISTAFE system for financial administration of the State;
 - The Administrative Court as an institution of supreme audit;
 - The framework for decentralised, autonomous financial management within the Municipalities (*Autarchias*); and
 - The local government framework of deconcentrated management within provinces and districts.

⁹ SISTAFE Law, Article 6.

Box I: Legal Framework for PFM in Mozambique

- Law No. 9 / 2002 of February 12 approving the system of Financial Administration of the State, commonly known as the "SISTAFE law"
- Decree No. 23/2004, of August 20, which approved the SISTAFE regulations
- Law No. 5 / 92, to May 6, which defines the role of the Administrative Court (TA);
- Law No. 13/97 of 10 July, establishing a system of audit and inspection of public expenditure by the Administrative Court (TA);
- Law No. 2 / 97, July 10, which defines the role of Municipalities;
- Law No. 11/97 of 31 May, which is the legal regime for the finances and assets of Municipalities;
- Law No. 8 / 2003 of May 19, the Local Government Act (relating to districts and provinces) and
- Decree No.13/2005, to June 10, Regulation of the Local Government Act.

The SISTAFE Law and Regulations

19. The drafting and approval of the SISTAFE Law and Regulations in 2002 and 2004 respectively was the start of a comprehensive reform of the system of public financial administration in Mozambique. This has replaced the system inherited from the colonial administration in order to introduce legislation and management models more appropriate to the needs of to the needs of a modern public administration. SISTAFE establishes and harmonizes rules and procedures in relation to the programming, management, execution and control of the state public treasury, and the financial administration of state agencies and institutions. It is applicable to all state agencies and institutions, including those with financial and administrative autonomy. It is also applicable to public companies and municipalities, except in relation to the rendering of accounts, which is governed by specific legislation.
20. The SISTAFE is organized in 5 subsystems:
- **The State Budget Sub-system**, which governs the preparation of the State Budget, the preparation of the budget bill for submission to the Legislature; and the evaluation of the budget submissions of state agencies and institutions.
 - **The Public Accounts Sub-system**, which has as its object the production and the maintenance of the records of transactions carried out by state agencies and institutions, and their effects on the State's assets. Amongst other things, it governs the execution of the State budget and the preparation of the State General Account (*Conta Geral do Estado*);
 - **The Public Treasury Sub-system**, which governs the process of financial programming, and the management of disbursements and payments in relation to the State Budget and the State treasury position. The subsystem also deals with the preparation of public financial statistics and the management of internal and external public debt.

- **The State Patrimony Sub-system**, which governs the coordination and management of the State's assets, the organization of the information regarding the inventory of State assets and preparation of the respective inventory.
 - **The Internal Control Subsystem**, which governs the inspection of the proper use of public resources, the application of accounting rules, and compliance with rules and legal procedures.
21. The mode of application of the SISTAFE Law is specified in the SISTAFE Regulations. These establish an integrated, harmonized system of norms and procedures for the application of SISTAFE in all state agencies and institutions, respecting the limits of autonomy.

The Tribunal Administrativo and the process of Audit

22. The *Tribunal Administrativo* (literally translated, the “Administrative Court”) is charged with the overall jurisdiction and oversight of public expenditures. This jurisdiction is carried out both through the audit of public accounts and, utilising the Tribunal's prerogative of pre-auditing public expenditures, through the granting or withholding of clearance (‘visto’) to engage in actions, contracts or other legal processes which generate public spending commitments. All state agencies and public institutions at central, provincial and local levels are subject to audit and pre-audit by the TA, including financially and administratively autonomous entities, and the municipalities.
23. The *Tribunal Administrativo* is therefore the supreme institution for the control of the legality of administrative acts and the oversight of public expenditure - an autonomous body whose president is nominated by the President of the Republic and approved by the National Assembly. The TA is directly responsible for auditing the individual accounts of government entities as well as the overall Conta Geral do Estado. In addition to this auditing function, it has a judicial status, acting as the Tribunal de Contas in reviewing and reaching final decisions over the audits of individual departments, as well as imposing fines and/ or initiating criminal investigations, where relevant. Thus, in its capacity as a Tribunal de Contas, the TA performs most of the functions performed by a Parliamentary Public Accounts Committee in a Westminster-based system. Only the audit of the CGE and the related audit opinion (parecer) of the TA is submitted to the Assembleia da República, where it serves as a basis for the assessment and approval of the public accounts (CGE).
24. The TA also exercises two major pre-audit functions on a regular basis: the review and approval/ rejection of a) proposals for recruitments into the civil service and b) large-scale tender decisions. All concessions, loans, procurement and public works contracts, which generate public expenditure and are executed by the state, are obligatorily subject to pre-audit.

Decentralised financial management: Municipalities, Provinces and Districts

25. Given the geographical extensiveness and cultural diversity of Mozambique, questions related to the geographical deconcentration of responsibilities and their administrative devolution have a considerable importance, both politically and for the efficiency of financial management. The Municipal Legislation (Pacote Autárquico) of 1997, created 33 urban municipalities with full financial and political autonomy. The law sets out clear criteria for determining the distribution of the two annual transfers that municipalities receive from central government, namely the *Fundo de Compensação Autárquica* (FCA) to cover recurrent expenditure and the *Fundo de Investimento de Iniciativa Local* (FIL) for investment expenditure. Thus, the municipalities possess their own finances and assets which are managed autonomously. Nevertheless, they are subject to internal audit by the *Inspeção Geral das Finanças* and external audit by the *Tribunal Administrativo*.
26. In addition, there are 11 provinces and 131 districts, which operate as agencies of the central government ministries on a deconcentrated basis. They are collectively referred to as local governments and operate under the local government laws and regulations, although they also fall under the remit of the SISTAFE law. Provincial and district governments (which are appointed rather than elected) have their own budgets, which are submitted for consideration and approval through the State budget subsystem.

The roles of the Ministries of Finance and Planning

27. After the 2004 elections, there was some institutional reform among state agencies and departments. Consequently, the Ministry of Planning and Finance, the government institution previously in charge of public finances, was divided. Today the central government institution in charge of public finances is the Ministry of Finance. Therefore, at the central level the Ministry of Finance is the government institution in charge of the coordination and control of SISTAFE. The Ministry is organised in directorates, which include the General Inspectorate of Finances (IGF – responsible for internal audit); the National Treasury Directorate; the National Budget Directorate; the Public Accounts Directorate and the National Patrimony Directorate. At the provincial level, the Ministry of Finance is represented in each province by a Provincial Directorate of Finance.
28. The Ministry of Planning and Development is responsible for managing the planning cycle of GoM. A key objective is to ensure an integrated process of planning and budgeting. Thus, the work of MPD respects the need to have a single process and cycle of planning around the PARPA, CFMP, the PES and the OE – the key processes of planning and budgeting for the medium - term in Mozambique.

3. Overview of PFM Reform Processes and Structures

29. This section of the report provides an overview of Public Finance Management (PFM) reform in Mozambique. It describes the reforms currently underway and identifies where performance improvements are being achieved. It also describes the methods of coordination and monitoring of these reforms.

Description of recent and ongoing reforms

30. We describe here the PFM reforms undertaken over 2004 to 2006 and those initiated in 2007. In line with PEFA guidelines, we restrict ourselves to the most important reforms, which can be said to have affected the totality of the PFM system. Box 2 below outlines the four key points of focus of these reforms.

Figure 6: Principal Points of Focus of PFM Reform in Mozambique

- The development and implementation of a computerised and integrated System of State Finance Administration, commonly known as the “**e-SISTAFE**” system;
- The development of an improved legal and institutional framework for **Procurement**, including the contracting of public works, the supply of goods or the delivery of services to the State;
- The establishment of the new Mozambique Revenue Authority - **Autoridade Tributária de Moçambique**; and
- The improved **internal and external audit** of public accounts..

31. In relation to e-SISTAFE, the state of progress may be summarised as follows:

- **Budget Execution:** during 2006 the execution of budgetary expenditures continued to take place predominantly through a system of funds advances (imprest accounts), meaning that computerisation had simply been extended to cover the reporting and accounting processes previously managed manually, and that as such the core of the reforms anticipated in this area had yet to be implemented. During 2007, a major step forward was made with the introduction across the majority of ministries of the direct execution modality, in which suppliers are paid directly from the Single Treasury Account (CUT).
- **Budget Preparation:** in June 2007, a second version was completed of the MEO – *Módulo de Elaboração Orçamental* (Budget Preparation Module) allowing for the preparation of budget submissions by sector ministries and agencies in electronic form and directly on the e-SISTAFE system. Over 800 budget entities (UGBs) utilised this system for the preparation of the 2008 Budget (OE 2008). The MEO has been described as user-friendly and rich in functionalities but some of these functionalities remain to be fully developed.
- **Programme Budgeting** was introduced in three pilot sectors for the 2008 Budget, although there continue to be problems in making adequate links to the 5-Year Government Programme (PQG) and to the PARPA II, whose structures do not readily lend themselves to a programme classification. The three chosen pilot sectors were ones with pre-existing

programmes (Education: Basic Education, Agriculture: Food Security and Public Works: Bridges) and the pilots restricted the classification process only to these programmes. A number of questions on the methodology and its applicability and usefulness across government will need to be addressed during 2008 before this can be rolled out.

- **Tax Collection Network:** the *business case* for the Collection Network module was developed and approved and the development phase has been initiated with a prototype module expected to be ready (for one tax – the *IRPS* or income tax) in April 2008. The module will combine the functionalities necessary for revenue management, collection of payments and classification of receipts.
- **The multi-currency Single Treasury Account (CUT MM):** is being piloted within UTRAFE (for its Common Fund). The multi-currency Single Treasury Account aims to alleviate the exchange rate risks arising between the moment of receipt of external funds and their actual use, due to the continued volatility of the metical. There continue to be differences of opinion over the usefulness of implementing the CUT MM. This is especially because almost all externally financed projects manage their accounts outside of e-SISTAFE and do not utilise the CUT.
- **Payroll, Salaries and Pensions:** a census of public servants was undertaken in 2007, which then permitted the initiation of the Single Register of Civil Servants and State Agents (Cadastro Único dos Funcionários e Agentes do Estado - e-CAF). MFP, MdF and the TA are working to validate the consistency of the data-base. This has delayed implementation of *e-Folha*, the payroll module developed for the calculation and payment of monthly salaries. The Census of State Pensioners, the first phase in the development of the corresponding Pensioners' Register was brought forward into 2008.
- **State Assets register/ inventory:** UTRAFE in conjunction with DNPE have developed the respective *business case* for this module but a number of questions related to the integration of asset control with accounting remain to be resolved and there remains a possibility that off-the-shelf software will be purchased for this module.
- **Debt management:** this is one of the lower priority areas for system development and it is anticipated that the *business case* will be considered in 2008. For the moment, the system utilised by DNT is the CS-DRMS II, a debt management system developed by the Commonwealth Secretariat.
- **Internal Control:** within e-SISTAFE, the Internal Control functionality (during the commitment and liquidation phases) is currently constrained by the limited proportion of

operations managed through direct budget execution. In addition, the Internal Control units within sector ministries are understaffed and there are inherent limitations on the role that IGF can play in this area due to the potential for conflicts of interest with its internal audit functions. Nevertheless, e-SISTAFE training for IGF inspectors and other staff is now proceeding.

32. New legislation on public procurement was approved in December 2005 , through the Decreto 54/2005 – *Regulamento de Contratação de Empreitada de Obras Públicas, Fornecimento de Bens e Prestação de Serviços ao Estado*, which came into force from the beginning of July 2006. In line with the regulations included in this decree, Government created in September 2006 the Operating Unit for the Supervision of Procurement - UFSA – *Unidade Funcional de Supervisão das Aquisições*, as a unit within the *Direcção Nacional do Património do Estado* (the National Directorate for State Assets). The UFSA unit has responsibility for guiding budget holders in the process of procurement, for monitoring the procedures applied and the outcomes of those processes. This package of reforms has had an immediate impact in clarifying the circumstances in which non-competitive contract awards may be justified and in introducing a clear and functional appeals and complaints system. Nevertheless, it is clear that most of its impact on the actual structure of procurement and on the value for money achieved in the acquisition process has yet to be felt.

33. Tax and customs administration have been united in one single body – the recently established *Autoridade Tributária de Moçambique* (AT), which has comprehensive and well defined competences covering the different phases of the tax administration process. The new Revenue Authority has modern tax collection instruments which are in line with best international practice, for example the *Número Único de Identificação Tributária* (NUIT), and the use of self-assessment processes. On the other hand, reforms are recent and these instruments are not yet fully functional. In particular, their use has been hindered by continued weaknesses in management information systems, which have prevented the cleaning and updating of the data-base which supports the NUIT and the payment by bank transfer of tax payments arising out of self-assessment processes. There are also shortages in the numbers of personnel and in specific technical skills of importance to the Authority's operations. For example, the AT does not have specialised skills in the oil, gas and mining sectors. The staff of AT are subject to a specialised personnel regime intended to assure their neutrality and professionalism and there is a specific code of conduct which its agents are required to follow.

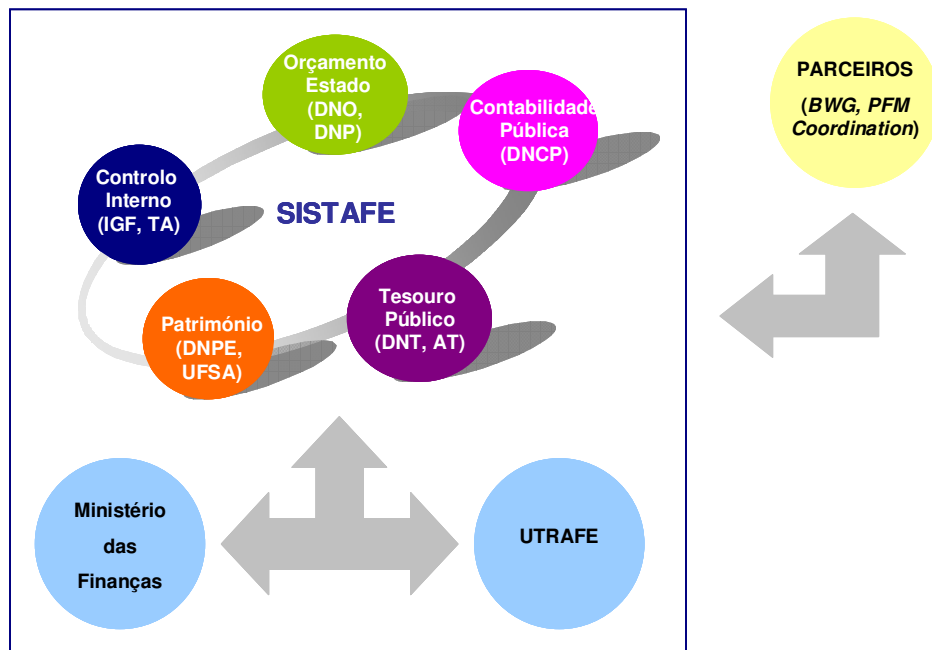
34. External Audit continues to be performed in an impartial, independent manner by the *Tribunal Administrativo*. Improvements in staff numbers and capacities have continued, and have had a notable impact on the analytical quality and completeness of its audit opinions. Nevertheless, there are weaknesses in the quality of analysis of the CGE, which derive from the continued lack of access of the TA to the e-SISTAFE system. Moreover, the overall coverage of audit remains a

serious concern, given that capacities are still only sufficient to cover 25% of the accounts of the State in the annual audit process. Links with the work of IGF also need to be strengthened in order to ensure a closer follow-up of audit recommendations.

Institutional factors supporting reform planning and implementation

35. Government leadership and ownership over the reform process has been strong. Notwithstanding a brief period of slippage in the wake of the December 2004 elections, there has been a firm and uninterrupted commitment to prudent macroeconomic management. The reforms introduced and the political direction taken by the new government have strengthened the economy and improved the efficiency of the public sector, a fact confirmed by the IMF's missions during 2007.
36. With regard to the specific question of the coordination of PFM reforms, the lack of a document formalising a comprehensive, integrated PFM reform strategy and action plan has occasionally led to a lack of clarity over the specific roles of different departments and units (note for example the continued confusion over the specific roles of DNP and DNO within the budget formulation process.) Thus, doubts continue over the effectiveness of reform coordination.

Figure 7: The structure of PFM reform management in Mozambique



37. If reforms are to be sustainable and to have impact over the long term, there is a clear and pressing need to have a break with past systems and approaches so that full advantage can be taken of the potential of the e-SISTAFE technology. In the short term as reforms are still running their course, there is a danger of parallel systems being established and persisting. More specific

rules to manage the transition process may perhaps be of help. In addition, clear and permanent links between planning and budgeting processes need to be established. In this respect, the decision of Government to separate the ministries of Planning & Development and Finance is one which will need careful implementation if there are not to be adverse consequences for the overall reform of public finance management.

38. In order to manage PFM reform, Government established UTRAFE – *Unidade Técnica para a Reforma da Administração Financeira do Estado* within the Ministry of Finance as the unit responsible for managing the implementation of the reforms to the State finance administration system. There is a steering committee for this process, in which representatives of government and of the Development Partners meet to debate the reform agenda and monitor the actions undertaken. This Committee created a QAG – Quality Assurance Group, which since 2003 has been making twice yearly monitoring visits to assess the progress of key aspects of the reform programme. These reforms are implemented sub-system by sub-system with the relevant management entities of MdF and MPD taking direct charge of the implementation process (See Figure 7). The Minister of Finance receives direct reports on each of these sub-systems (generally on a weekly basis) in order to manage the coordination process, while UTRAFE concentrates in particular on the development of the technological component of the reforms.

4. Assessment of Public Finance Management at end 2006

4.1 Overview

39. The PFM Performance Measurement Framework identifies the critical dimensions of performance of an open and orderly PFM system as follows:
- **Credibility of the budget** - The budget is realistic and is implemented as intended;
 - **Comprehensiveness and transparency** - The budget and the fiscal risk oversight are comprehensive, and fiscal and budget information is accessible to the public;
 - **Policy-based budgeting** - The budget is prepared with due regard to government policy and its medium term financing implications;
 - **Predictability and control in budget execution** - The budget is implemented in an orderly and predictable manner and there are arrangements for the exercise of control and stewardship in the use of public funds;
 - **Accounting, recording and reporting** – Adequate records and information are produced, maintained and disseminated to meet decision-making, control, management and reporting purposes;
 - **External scrutiny and audit** - Arrangements for scrutiny of public finances and follow up by the Legislature are operating.
40. In addition the measurement framework identifies a set of relevant criteria with regard to donor practices:
- **Donor practices** – external grant and concessional loan financing for government activities is budgeted and disbursed in ways which generate predictability in funding, and transparency in the allocation and use of funds, whilst also promoting the use of national systems and procedures.
41. Figure 8 overleaf provides a full listing of the 31 indicators on which the assessment is based and a scoring of PFM performance at end 2006 in relation to these indicators. A full description of the methodology which has been followed is available at www.pefa.org. For each of the 31 indicators, this chapter explains how the score has been reached, provides a comparison with scores at end 2004 and identifies the PFM reforms and other measures implemented during 2007 likely to impact on the quality of performance.
42. The Summary Assessment at the beginning of this report provides an overview of the whole assessment and its implications. Summary tables of the 2004 and 2006 scores are presented in Annex One.

Figure 8: Summary of PFM Performance ranking at end 2006

INDICATOR		2006 Scoring
A. PFM OUT-TURNS: Credibility of the Budget		
PI-1	Aggregate expenditure out-turn compared to original approved budget	B
PI-2	Composition of expenditure out-turn compared to original approved budget	C
PI-3	Aggregate revenue out-turn compared to original approved budget	C
PI-4	Stock and monitoring of expenditure payment arrears	B+
B: KEY CROSS-CUTTING ISSUES: Comprehensiveness and Transparency		
PI-5	Classification of the Budget	B
PI-6	Comprehensiveness of information included in budget documentation	B
PI-7	Extent of unreported government operations	C+
PI-8	Transparency of inter-governmental fiscal operations	C+
PI-9	Oversight of aggregate fiscal risk from public sector entities	D+
PI-10	Public access to key fiscal information	B
C: BUDGET CYCLE		
C(i) Policy-based Budgeting		
PI-11	Orderliness and participation in the annual budget process	B+
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	C+
C(ii) Predictability and Control in Budget Execution		
PI-13	Transparency of tax-payers' obligations and liabilities	B+
PI-14	Effectiveness of measures for tax-payer registration and tax assessment	B
PI-15	Effectiveness in collection of tax payments	D+
PI-16	Predictability in the availability of funds for commitment of expenditures	C+
PI-17	Recording and management of cash balances, debt and guarantees	A
PI-18	Effectiveness of payroll controls	B
PI-19	Competition, value for money and controls in procurement	B
PI-20	Effectiveness of internal controls for non-salary expenditure	B
PI-21	Effectiveness of internal audit	B
C(iii) Accounting, Recording and Reporting		
PI-22	Timeliness and regularity of accounts reconciliation	B
PI-23	Availability of information on resources received by service delivery units	D
PI-24	Quality and timeliness of in-year budget reports	C+
PI-25	Quality and timeliness of annual financial statements	C+
C(iv) External Scrutiny and Audit		
PI-26	Scope, nature and follow-up of External Audit	D+
PI-27	Legislative scrutiny of the annual budget law	B+
PI-28	Legislative scrutiny of external audit reports	C+
D. DONOR PRACTICES		
D-1	Predictability of Direct Budget Support	A
D-2	Financial information provided by Donors for budgeting and reporting on project aid	D+
D-3	Proportion of aid that is managed by use of national procedures	D

4.2 Credibility of the Budget

43. The indicators included in this group are designed to gauge the extent to which government budgets are implemented as intended, including the extent to which arrears are allowed to build up. They do this by comparing actual revenues and expenditures with budgeted ones, by analysing the deviation in the actual composition of expenditure from the approved budget, and by examining the management of expenditure payment arrears.

Indicator	Dimension assessed	2004 Assessment	2006 Assessment
PI – I: Aggregate expenditure out-turn compared to original approved budget	The difference between actual primary expenditure and the originally budgeted primary expenditure (i.e. excluding debt service charges and externally financed project expenditure)	A (B)	B

2006 Assessment

Data for PI-I	2004		2005		2006	
	OE	CGE	OE	CGE	OE	CGE
Operating Expenditure (Excluding interest)	18,042.00	17,106.53	21,320.79	19,588.12	25,167.00	24,429.00
Investment Exp. (Domestically financed)	4,125.97	3,910.94	5,762.53	5,316.72	6,566.00	6,542.00
TOTAL DESPESA PI I	22,167.96	21,017.47	27,083.32	24,904.84	31,733.00	30,971.00
		5.19%		8.04%		2.40%

Source: Conta Geral do Estado 2004, 2005 & 2006

44. With regard to the aggregate expenditure out-turn, the table above presents the results for the last three fiscal years. Numbers include recurrent and internally financed investment expenditures but exclude debt service charges and externally financed investment. The percentage deviations of actual expenditures from originally approved budgets were - 5.19% in 2004, - 8.04% in 2005 and - 2.40% in 2006. Thus, in two out of the last three years, aggregate expenditure deviated by more than 5% from the originally approved budget, meriting a “B” score.
45. Several factors contributed to this score. 2005 was an unusual year, in that the Presidential and National elections which took place at the end of 2004 (requiring a re-enactment of the 2005 budget) and the organisational reforms introduced in the public sector as a result – particularly the creation of new ministries and agencies, provoked major changes in the 2005 budget. In 2004, expenditure shortfalls were the result of spending limits imposed on investment and goods and

services expenditures as a consequence of tax collections falling short of projections. (See indicator PI-3).

Comparison of 2004 & 2006

46. Based on the information available in 2007, we note that the score established for indicator PI-I in 2004 was in fact erroneous, in particular due to the inclusion within the calculation of expenditure on debt servicing. At that time, the expenditure deviations registered were +3.7% in 2002, -10.8 % in 2003 (due to the floods which ravaged the country in 2000 and 2001, necessitating heavy relief and reconstruction expenditures which were difficult to budget accurately) and -3.7% in 2004. Our updated analysis of the data for the year 2004 (based on the final statement of accounts) shows a deviation in the 2004 fiscal year of -5.19%, which would have given a "B" score.
47. This correction is important because it gives a more accurate picture of trends in the quality of preparation and execution of the State Budget (OE). Concretely, it suggests that there was no decline in the quality of these processes. In fact, our judgement is that there was a moderate improvement. The 2005 fiscal year should be considered an abnormal year because of the influence of the December 2004 elections, and during fiscal year 2006 budget execution was considerably more efficient with a deviation from the approved budget of significantly less than 5 %. This was mainly the consequence of the substantive improvements achieved in tax collection and administration. (See indicator PI-3).

Trends in 2007

Data for PI - 1 (Current MT Millions)	2007			
	OE	CGE	% Exec	
Operating Expenditure				
Personnel	17,904,811	12,602,345	70.4	
Goods & Services	15,665,826	7,236,940	46.2	
Debt servicing	2,078,000	817,835	39.4	
Transfers	5,858,958	4,524,135	77.2	
Subsidies	377,800	241,936	64.0	
Capital expenditures	27,897,420	9,281,599	33.3	
Other current expenditures	1,102,159	429,393	39.0	
SubTotal	70,884,974	35,134,183	50	
Investment Expenditure				
Internally financed	8,941,100	5,339,248	59.7	
Externally financed	22,269,399	4,894,616	22.0	
SubTotal	31,210,499	10,233,864	32.8	
TOTAL ALL EXPENDITURE	102,095,473	45,368,047	44.4	
TOTAL PI 1 EXPENDITURE*	77,748,074	39,655,596	51.0	49.0%

* Excluding debt servicing & externally financed investment expenditure

48. We have analysed the trends in expenditure out-turns up to the end of the third quarter 2007, and these are shown in the summary table above. It is difficult to determine the likely annual out-turn of budgetary execution from these data as the CGE is recorded on a cash basis and many expenditure items are not fully paid out until the fourth quarter. However, the position is broadly consistent with the situation at the end of the third quarter of 2006, suggesting that the improvements noted in 2006 may have continued into 2007.

Indicator	Dimension	2004 Assessment	2006 Assessment
PI – 2: Composition of expenditure out-turn compared to original approved budget	Extent to which variance in primary expenditure composition exceeded overall deviation in primary expenditure (as defined in PI-1) during the last three years	B	C

2006 Assessment

49. The variance in expenditure composition (at the level of individual ministries and agencies) exceeded the overall deviation in primary expenditures (as defined and measured in PI-1) by 6,3% in 2004, 4,0% in 2005 and 10,8% in 2006. Therefore, the variance in expenditure composition exceeded the overall expenditure deviation by more than 5% in two out of the three years under analysis, as a result of which a “C” score is attributed.

Year	for PI-1 Aggregate Expenditure Deviation	Expenditure Variance (for largest 20 budget entities)	for PI-2 Variance in excess of Aggregate deviation
2004	5.2%	11.3%	6.1%
2005	8.0%	11.6%	3.6%
2006	2.4%	13.2%	10.8%

Comparison of 2004 & 2006

50. There was a substantial variance in the composition of expenditure relative to the approved budget in both 2004 and 2006, and as a result the score on this indicator fell from a “B” in the 2004 PEFA assessment to a “C” in this assessment.

Indicator	Dimension to be assessed	2004 Assessment	2006 Assessment
PI – 3: Aggregate revenue out-turn compared to original approved budget.	Actual domestic revenue collection compared to domestic revenue estimates in the original, approved budget	B	C

2006 Assessment

51. Domestic revenue collections were equivalent to 89.8% of approved estimates in 2004; 92% in 2005 and 100.9% in 2006. Thus, domestic revenue collections were less than 92% of the projections approved in the budget in one out of the three years under analysis, which gives a “C” score.

Data for PI - 3 (MT millions)	2004			2005			2006		
	OE	CGE	% Exec	OE	CGE	% Exec	OE	CGE	% Exec
TOTAL REVENUES	17,752.49	15,942.50	89.8	21,544.12	19,818.08	92.0	26,236.88	26,463.61	100.9

52. The quantitative benchmarks underlying the scoring for this indicator are relatively demanding, reflecting the crucial importance of basing a budget on accurate estimations of revenue collections. For example, for the Government of Mozambique the fact of having collected 92% of the revenues estimated for 2005 implied a financial gap of approximately 1% of GDP, which would have been equivalent to either a 5 % reduction in aggregate expenditures or an increment of 30% in the fiscal deficit. The introduction of structural changes of these dimensions during the process of budget execution inevitably entails important losses in efficiency.
53. A large part of the problem has been that the basis for making projections of revenue collections has been constantly shifting as a result of the reforms in tax policy and tax administration systems which occurred over 2004 to 2006. Revenue collections grew by 24% in 2005 and by 34 % in 2006 due to increased collections of taxes on goods and services, led mainly by taxes on domestic operations, in particular, VAT. Unfortunately, the revenue estimate for 2005 assumed an increment of 35%, rather than the more modest but still impressive figure of 24 % actually achieved. On the other hand, there were more positive developments in this situation during 2006, when total domestic revenue collections actually exceeded the projections approved in the State Budget (OE).

Comparison of 2004 & 2006

54. In 2004, the score against indicator PI-3 was a “B” because revenue collections corresponded to 101.6% of estimates in 2002; 94.9% in 2003 and 89.8% in 2004. So, there was a clear decline in the score between the two assessments but this was due exclusively to the results of 2004 and 2005. The 2006 results, when collections represented 100.9% of estimates, was outstanding. If collections in excess of 97% of estimates were again to be achieved in 2007, the score for this indicator would be an “A”, if a PEFA assessment were to be undertaken in 2008.

Indicator	Dimension to be assessed	2004 Assessment		2006 Assessment	
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 the stock.	A	D+	A	B+
	(ii) Availability of data for monitoring the stock of expenditure payment arrears.	D		B	

2006 Assessment

55. At 31st December 2006, the level of uncleared advances (as recorded in the 4th Quarter Budget Expenditure Report) comprised 2.21% of total expenditures but these advances were cleared during the first quarter of 2007 in line with the relevant legislation. The CGE for 2006 did not register any payment arrears for the 2006 fiscal year. We can therefore state with a high degree of certainty that arrears are likely to be substantially less than 2 % of total expenditures, giving an “A” score for the first dimension of this indicator.
56. The system of registering and accounting for expenditures (utilising e-SISTAFE) records all commitments, all expenditures due for payment (despesas liquidadas e não pagas) resulting from the commitments made up until the end of the fiscal year and all uncleared advances. (All advances require a commitment, hence these must also be recorded.) The e-SISTAFE system has now been comprehensively introduced across central government. Thus, there is reliable and complete data on the stock of arrears. However, the age profile of arrears and the specific agencies responsible for these arrears are not clearly identified either in the Quarterly Budget Expenditure Reports or in the CGE. For this reason, this scores a “B” rather than an “A” for this dimension and a “B+” overall.

Comparison of 2004 & 2006

57. There were major improvements in this indicator as a direct consequence of the extension of e-SISTAFE across all central government ministries and provincial departments. Whether expenditures are made through advances or through direct execution (direct payment of suppliers from the CUT), it is possible to know precisely the value of unpaid expenditure commitments. The way the system is conceived does not permit the accumulation of expenditure arrears in that the system temporarily suspends or blocks the access of budget execution agents with uncleared commitments, requiring the intervention of a second (more senior) authorised expenditure agent to undertake the payment of the commitments or their cancellation (in the

event that they are found to be erroneous), so as to close the expenditure process opened by the original agent.

Trends in 2007

58. From 1st, September 2007 budget execution by ‘direct execution’ became obligatory for all State institutions, except the districts, and for all expenditures except overseas transfers and certain subsidy payments (for example, payment of funeral expenses). Direct budget execution involves three phases or distinct steps in the expenditure authorisation process: the commitment or financial programming of the expenditure, its ‘liquidation’ (liquidação) when resources are assigned for payment and the actual payment, when funds are transferred directly from the Single Treasury Account (CUT) to the bank account of the supplier of goods or services. It is anticipated that with the extension of direct budget execution, the level of expenditure arrears will decrease significantly and that the system will automatically highlight irregularities so that they can be speedily cleared.

4.3 Comprehensiveness and Transparency

Indicator	Dimension to be assessed	2004 Assessment	2006 Assessment
PI – 5: Classification of the Budget	The classification system used for formulation, execution and reporting of the central government's budget	B	B

2006 Assessment

59. An economic, administrative and functional classification system is applied in both the formulation and execution of the budget. However, the functional classifiers utilised are only those relating to the 10 principal functions of government (that is, excluding the 69 sub-functions within the GFS - COFOG system¹⁰). In order to reach an “A” score on budget classification, it would be necessary to apply, in addition to the administrative and economic classifications, the full set of 69 functional classifiers or a programmatic classification which is similarly comprehensive.

Comparison of 2004 and 2006

60. No change in this indicator was observed between 2004 and 2006. Since 2003 when the new (GFS-compatible) budget classification system was introduced there have been significant improvements but no specific initiative to introduce sub-functional classifiers.

¹⁰ The UN-supported Classification of the Functions of Government (COFOG) provides a functional classification which cuts across administrative entities. It comprises 10 main functions at the higher level and 69 sub-functional classifiers. For the complete listing, see: <http://unstats.un.org/unsd/cr/registry/regcst.asp?Cl=4>.

Trends in 2007

61. The solution proposed by the Government of Mozambique to fill this classification gap is the introduction of Programme Budgeting. This seeks to define a strict link between i) decisions at the level of strategic policy, as expressed in national and sectoral plans, ii) the Medium Term Fiscal Framework (Cenário Fiscal de Médio Prazo), iii) the allocation of budget ceilings, iv) the programming of resources through the budget formulation process, v) the application of resources through the budget execution process, vi) the submission of accounts and vii) the assignment of responsibility for the results achieved. The proposed Programme Budgeting solution is not only a system designed to meet the needs of MoF and MPD, but a whole new management approach which integrates planning and budgeting in such a way as to meet the needs of all sectors at every organisational level - Central, Provincial and District (and potentially in the future for the autonomous local governments – Autarquias – and Public Enterprises). It defines the specific outputs and the quantity of resources necessary to achieve pre-determined outcomes. These outcomes are in turn related to the strategic and policy objectives of each programme.

The Programme Budget system: Proposed design of Classifiers

Below we outline the programme classification system which is currently under development:

a) **National Planning (Programmatic Classifier)**

The programmatic classifiers will be made up of national programmes and, where relevant, sub-national programmes. Its hierarchical structure will be constituted as follows:

- I. – Central objective of the Five Year Government Programme,
- I.1 – Macro objective (relevant pillar of PARPA),
- I.1.1 – Strategic Area
- I.1.1.1 – Strategic sub-area,
- I.1.1.1.1 – Strategic Objective (National Programme of the Government),
- I.1.1.1.1.1 – Tactical Objective (National Sub-programme of Government);

b) **Sectoral Planning (Sectoral Classifier)**

Sectoral classifiers, according to the definition in Article 52 of Decree 23/2004 (The SISTAFE Regulation) comprise an extension of National Sub-programmes, that is of the Programmatic classifiers. They involve the use of Sector programmes, Sectoral Sub-programmes and, where relevant, Activities, which are also of a sectoral character. Their hierarchical structure will be constituted as follows:

- I.1.1.1.1.1.1 – Strategic Sectoral objective (Sectoral programmes),
- I.1.1.1.1.1.1.1 – Tactical Sectoral objective (Sectoral sub-programme),
- I.1.1.1.1.1.1.1.1 – Specific Sectoral objective (Activity of government).

62. The Government intends that the Programme Budgeting system should be introduced and developed during the 2008 calendar year (based on pilot exercises in Education, Roads and Agriculture) so that it can apply in the 2009 Budget and the 2009 – 2011 CFMP. Even if these concepts were well understood across all the agencies of government, this would constitute a very ambitious programme. As this level of understanding has not yet been reached, the

proposed plan for introduction of programme budgeting would only be feasible, if a highly comprehensive training programme were to be implemented during 2008.

63. Moreover, the concept of a 'programme' as it has been introduced so far is not consistent with standard practice and could not be applied with the same degree of comprehensiveness as the concept of a function or sub-function. When a functional classification is applied, all of the activities of government are categorized inside one function or another, whereas the proposed programme classifiers, in the way they have been developed thus far, refer only to certain types of public expenditure. Specifically, they refer only to projects related to clusters of activities ('programmes') within the PARPA and the Five-year Government Programme. They do not provide the basis for a comprehensive classification of all recurrent and investment activities in relation to their objectives.

Indicator	Dimension to be assessed	2004 Assessment	2006 Assessment
PI – 6: Comprehensiveness of information included in budget documentation	Typology of information in the budget documentation most recently issued by the central government	B	B

2006 Assessment

64. The most recent budget documentation (for the presentation of the 2008 draft Budget) included the following elements:
- The Budget out-turn for the previous fiscal year, presented in the same format as the proposed 2008 Budget;
 - The Budget of the current year, presented in the same format as the proposed 2008 Budget;
 - Summary budget data on revenues and expenditures (however, still not presented in a format fully consistent with the GFS requirements)
 - A more detailed presentation of macroeconomic assumptions, including an explanation of the budgetary implications of new policy initiatives with an estimation of their anticipated fiscal impact;
 - A commentary on the SADC Trade Protocol and its implications for domestic Revenues;
 - More extensive and detailed information on domestic Revenues (although no details are presented for the budget line, "Own Revenues").
65. Data annexes on municipalities and public enterprises have been improved and the quality of information is considerably better than in earlier years. Data are organized by budget entity for each of the principal categories of current expenditures – Investment and Operating Expenditure. Moreover, the 2008 Budget Proposal has been made available for the first time on line on the

web-page of the National Directorate of the Budget, www.dno.gov.mz. The guidelines and methodology for the preparation of the 2008 and 2009 budgets may also be found on this web-page, as can the operating manual for the Budget Execution module of e-SISTAFE. (MEO - Módulo de Execução Orçamental)

66. The budget documentation for the 2008 budget as submitted to the National Assembly included 5 of the 9 elements, which should normally be included according to international best practice, which gives a “B” score for this indicator. The elements not included in the documentation submitted were the following:
- A statement of the anticipated fiscal deficit for 2008 (defined according to the GFS norms, or another internationally recognised standard);
 - The financing of that deficit, showing the anticipated composition of domestic and external financing;
 - A statement of the debt stock, including details at least for the beginning of the year of submission of the Budget (2007 in this case);
 - A statement of Financial Assets, including details at least for the beginning of 2007.

Comparison of 2004 & 2006

67. For this indicator too, there were no significant changes observed over the period of 2004 to 2006, which might have caused an improvement in the scoring. However, the quality of budgetary documentation has certainly improved as a result of the introduction of e-SISTAFE (the data tables annexed to the Budget are of better quality, with information presented in a format which is clearer and more readily understood and all derived from the same computer application) and due to improvements in analytical capacity within DNO (reflected in the refinements and improvements introduced in the Budget framework paper - documento de fundamentação – for the 2008 Budget).

68. Information on the fiscal deficit is presented in the budget documentation but not in a format which complies with international norms. Thus, it would be possible to calculate the fiscal deficit from the information presented but it is not explicitly presented in the GFS format. This and the fact that the documentation does not include information on the anticipated financing of the fiscal deficit are the principal reasons why it has still not proven possible to achieve an “A” score for the comprehensiveness of budget information.

Trends in 2007

69. Improvements in the quality of budget documentation may be expected during 2008 (for the preparation of the 2009 budget) as a consequence of the efforts being made to strengthen the preparation process for the MTEF (CFMP). As part of this work, it would be advisable for the

Government to pay particular attention to the way in which information on the fiscal deficit and its financing is constructed and presented.

Indicator	Dimension	2004 Assessment		2006 Assessment	
PI – 7: Extent of unreported government operations	(i) The level of extra-budgetary expenditure (other than donor-funded projects) which is unreported i.e. not included in fiscal reports.	B (C)	C+ (C)	B	C+
	(ii) Income/ expenditure information on donor-funded projects which is included in fiscal reports	C		C	

2006 Assessment

70. A major study of unreported government operations was conducted over late 1999 and early 2000 and reported in Austral 2000. This revealed significant levels of off-budget spending financed through 'own revenues' (receitas propias), which are fees and charges retained within the collecting agency to finance operating expenditures, and through externally financed projects. This led to a plan of action to reduce levels of off-budget spending, which has been steadily implemented since then. In relation to off-budget expenditure financed through receitas propias, measures were taken to rationalize the fees and charges which could be levied directly by line ministries, and to record expected collections and the corresponding spending more comprehensively in both the budget (OE) and final accounts (CGE).

Improved recording of 'Own Revenues' 2004-2006									
	2004			2005			2006		
	OE	CGE	Actuals as % Forecast	OE	CGE	Actuals as % Forecast	OE	CGE	Actuals as % Forecast
Own Revenues	0.0	0.0	na	621.8	707.1	113.7%	1,096.4	1,612.3	147.1%
Total Revenues	17,752.5	15,942.5	89.8%	21,544.1	19,818.1	92.0%	26,236.9	26,463.6	100.9%
% Total Revenue	na	na		2.9%	3.6%		4.2%	6.1%	
% Total Exp.	na	na			1.9%			3.6%	

Millions of Meticalais (current prices)

Source: CGE 2004, 2005 e 2006

71. The table above shows that the amounts so recorded increased from zero in 2004 to Mts 1.6 billion in 2006, 3.6 % of total spending. This represents a significant improvement in the quality of the coverage of the OE and CGE. Unfortunately, there has not been a recent comprehensive assessment of off-budget spending from receitas propias, by which progress could be rigorously

judged 11. Based upon discussions with DNO on the implementation of the ‘off-budget spending action plan’, we would judge that the magnitude of these expenditures was probably above 5 % of total spending in 2004 (requiring a correction of the score) but that it now represents above 1 % but below 5 % of total expenditures, giving a “B” score, on this dimension of the indicator.

72. There is no doubt that externally financed project expenditures constitute the bulk of unreported central government operations. Whilst efforts to improve recording are being made, most donor agencies have proven reluctant to channel their project expenditures through the Government’s disbursement systems. They thus preserve separate banking arrangements and, as a result typically employ separate budgeting and accounting procedures. In order to be “on-budget”, it is necessary both for anticipated expenditures to be reported and approved through the OE and for actual expenditures to be recorded in final accounts (the CGE) and, ideally, in quarterly Budget Execution Reports. Procedures have been established for externally financed projects to manage disbursements through the Treasury Single Account (Conta Única do Tesouro, CUT). This will require prior approval of spending through the OE and will automatically generate an accounting record. The CUT has been in operation since 2004 and the full set of disbursement and accounting procedures associated with the CUT is fully operational and effective. However, the use of the CUT has proven very difficult to introduce as a standardised routine for all donor agencies. Therefore, to date, comprehensive reporting exists only for loan-financed projects, where disbursements are recorded in the DNT’s CS-DRMS debt system¹², which has been installed with support from the Commonwealth Secretariat. This leads to a “C” score on this dimension and an overall score of “C+” for the indicator.

Comparison of 2004 & 2006 | Trends in 2007

73. On the basis of the most recent data, we believe it is appropriate to reduce the 2004 score in respect of the first dimension of this indicator. As a result of this re-basing of the 2004 score, an increased score is recorded as a result of the significant improvements in the recording of own revenues and corresponding spending. We have also observed improvements in the quality of the systems for reporting and recording expenditures from externally financed projects. The most recent of these improvements, introduced in 2007, was a facility for dealing with foreign exchange receipts and payments within the CUT. The problem has been that these systems are not yet sufficiently utilised either by sector ministries or by donor agencies to permit a noticeable – and verifiable – reduction in the level of unreported central government operations, funded from off-budget externally financed projects.

¹¹ The 1999-2000 study was itself selective in its choice of ministries and did not make estimates for the whole of government.

¹² It should be noted that even in the case of loan financed expenditures, although the level of disbursements by project is carefully tracked, it is not possible to match the expenditure breakdown to the expenditure classifiers employed for the OE and CGE.

Indicator	Dimension	2004 Assessment		2006 Assessment	
PI – 8: Transparency of inter-governmental fiscal operations	(i) Transparent and rules based systems for the horizontal allocation among SN governments of unconditional and conditional transfers from central government.	A	C+	A	C+
	(ii) Timeliness of reliable information to SN governments on their allocations from central government for the coming year.	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		D	

2006 Assessment

74. Inter-governmental fiscal relations in Mozambique are based on the Municipal Legislation (Pacote Autárquico) of 1997, which created 33 financially and politically autonomous urban municipalities. The law sets out clear criteria for determining the distribution of the two annual transfers which municipalities receive from central government, namely the Fundo de Compensação Autárquica (FCA) to cover recurrent expenditure and the Fundo de Investimento de Iniciativa Local (FIIL) for investment expenditure. It also indicates that overall transfers should reach 1.5-3% of domestic revenue. Distribution of transfers should be based on four criteria: population, area, revenue collection, and degree of economic development. In this sense, the system is transparent and rules-based. Accordingly, an “A” score has been attributed to this dimension of the indicator. The main drawback is that central government has yet to develop the necessary informational base to apply the full set of criteria, and until today has only utilised the population criterion to determine annual transfers.
75. Currently, information regarding transfer levels for the forthcoming budget year is only formally transmitted to municipalities after the national budget has been approved by Parliament, which does not leave sufficient time for budget amendments at municipal level to be made before the start of the fiscal year. Thus the “C” score for this dimension of the indicator. Given the rules-based system on which they rely and the fact that allocations can consequently be pre-calculated prior to their approval by the Assembleia da República, indicative allocations should and could be communicated to municipalities with much more promptness by central government, for example when budget ceilings are communicated to the sectors, in May of each year.

76. Given their full financial autonomy, municipalities report directly only to the local assembly. Financial reports are sent for information to the Ministry of Finance, and for audit purposes to the Tribunal Administrativo. However, these are often late and incomplete. The Ministry of Finance compiles them in summary form in the Conta Geral do Estado, but only with general revenue and expenditure categories, which makes consolidation according to sectoral categories virtually impossible. The low score for this last dimension leads to an overall “C” score for the indicator.

Comparison of 2004 & 2006 | Trends in 2007

77. No changes were recorded in this indicator. A revision of the legislation regarding municipal finances to correct some of the problems identified above has been planned for some time, but progress has been slow. The score for this indicator could be improved through providing more timely information from central government to municipalities regarding their allocations for the coming year. Unfortunately, it did not prove possible to make the necessary adjustments in budget preparation routines to permit such a change in time for the preparation of the 2008 Budget.

Indicator	Dimension	Assessment 2004		Assessment 2006	
PI – 9: Oversight of aggregate fiscal risk from other public sector entities	(i) Extent of central government monitoring of autonomous government agencies and public enterprises	C	D+	C	D+
	(ii) Extent of central government monitoring of SN governments' fiscal position	D		D	

2006 Assessment

78. In terms of its oversight of aggregate fiscal risks, central government needs to monitor the performance of sub-national governments as well as autonomous government agencies, public enterprises and private enterprises where the government has a significant shareholding. The performance of public enterprises is monitored directly by the Treasury (DNT) who receive quarterly financial reports as well as fully audited annual accounts. DNT scrutinise these reports and provide corresponding briefings to the Minister of Finance on an enterprise by enterprise basis. However, to date there is no consolidated assessment of fiscal risk across all public enterprises.

79. IGEPE has responsibility for monitoring public investments in private companies. Most of these constitute former public enterprises, which have been identified for restructuring or privatisation.

In some cases, private shareholders have bought equity in these enterprises, following a restructuring process; in others, operations have been closed and assets put up for sale. A number of these companies are experiencing performance problems and thus represent a significant source of contingent liabilities for government. Budget provision is currently made in cases where these have become actual liabilities – for example, where the salaries of current staff or the pensions of former staff can no longer be met by these companies. However, IGEPE does not yet have a procedure for making a consolidated risk analysis of all the companies under its remit nor for making budget provision for contingent (rather than actual) liabilities. Moreover, there is not yet a routine procedure for consolidating fiscal risks from public enterprises (monitored by DNT) with the fiscal risks emerging from state investments monitored by IGEPE. Overall, then, this dimension of the indicator scores a “C”.

80. A further problem, highlighted in the IMF ROSC report of August 2007, arises from the fact that DNT do not have a legal or administrative instrument, which formalises their monitoring role over the autonomous entities of the State. The lack of such a regulatory framework means that the financial relationship (in terms of reporting, oversight, audit requirements, etc) between DNT and the autonomous entities (enterprises, institutions, funds and others) depends upon the legal frameworks of each one of these entities, which are not harmonised. There is thus a lack of clarity over the nature of financial oversight which DNT is empowered to exercise over public enterprises. A further source of confusion derives from the definition of financial autonomy included within the ‘SISTAFE law’, based upon the application of a rule in which organisations receiving more than two thirds of their operating costs from own revenues are defined as financially autonomous. In short, strong oversight of fiscal risks will require a comprehensive process of legislative revisions.
81. In terms of sub-national governments, namely municipalities, legislation does not permit borrowing or the incurrence of debt. However, municipalities can still incur liabilities to staff or to suppliers and, at present, there is no system for monitoring their fiscal position. Where problems have occurred in the past, these have been dealt with ex post in an ad hoc manner. This is not consistent with a comprehensive oversight of fiscal risk and could present significant problems in the future, as the scope of municipal activities continues to expand. This dimension of the indicator thus scores a “D”, giving an overall score of “D+”.

Comparison of 2004 & 2006 | Trends in 2007

82. No changes in this indicator were recorded over 2004 to 2006. Nevertheless, DNT has made efforts to develop a set of routine procedures by which to consolidate fiscal risks emerging from public enterprises with those, monitored by IGEPE, arising from public holdings in private

companies. The IMF ROSC mission of August 2007 made recommendations in respect of this issue, as well as the other points raised above.

Indicator	Dimension	Assessment 2004	Assessment 2006
PI – 10: Public access to key fiscal information	Typology of fiscal information which is publicly available	C	B

2006 Assessment

83. Public access to key fiscal information is provided through a number of channels. The Government publishes some of the relevant documentation through the Imprensa Nacional, and/or makes it available through the internet. The Ministry of Finance, the Central Bank, the Tribunal Administrativo, the DNPE, ATM, the ministries of health and of education and other public institutions all have websites where relevant information is made available, albeit with different degrees of completeness and promptness.
84. The score against this indicator is reduced by the fact that two of the six elements of information to which public access would be required according to international good practice are not available in Mozambique. The fact that four elements are available, nevertheless, merits a “B” score against this indicator. Details are provided in the table above.
85. From the table below, one may see that the UFSA unit of DNPE have made significant progress in improving the availability of information and are close to fulfilling the requirements of this indicator. On the other hand, while most elements of information from other sources are available, there are still significant deficiencies in relation to the quality and timeliness of information. For example, although the Imprensa Nacional de Moçambique does publish important information (in particular the Budget, the Budget execution reports and the CGE), this is often a number of months after it is initially made available, meaning that individuals and entities without good internet access do not have timely access to this information. There are also continuing concerns, despite some improvements, over the presentation and accessibility of budgeting and accounting reports, which remain difficult to understand and interpret without technical knowledge of public finance and budgetary processes.

Information Required	Source	Means of Access	Time Period in which information made available
1. Annual Budget documentation	Direcção Nacional de Orçamento (DNO)	Available in printed form from <i>Imprensa Nacional</i> and at: www.dno.gov.mz	The full budget documentation (as assessed in PI-6) is made available on-line from the moment of submission to the National Assembly. Limited numbers of printed copies are also available from this time and additional copies are printed according to demand.
2. In-year budget execution reports (<i>Relatório de Execução Orçamental</i>)	Direcção Nacional de Contabilidade Pública (DNCP)	Available in physical and electronic form from DNCP or through purchase from the <i>Imprensa Nacional de Moçambique</i> .	Available from DNCP 45 days after the end of the Quarter and subsequently from the <i>Imprensa Nacional</i> .
3. Year End Financial Statements (<i>Conta Geral do Estado - CGE</i>)	Direcção Nacional de Contabilidade Pública (DNCP)	Available in physical and electronic form from DNCP or through purchase from the <i>Imprensa Nacional de Moçambique</i> .	Available from DNCP by direct request and subsequently from the <i>Imprensa Nacional</i> , after its approval by the National Assembly (which takes place within six months of the submission of the opinion (<i>parecer</i>) of the <i>Tribunal Administrativo</i> to the National Assembly).
4. External Audit reports (<i>Relatório e Parecer</i> of the TA on the CGE)	Tribunal Administrativo	In physical form and downloadable from: www.ta.gov.mz	Available by direct request from TA after approval of the CGE and its <i>parecer</i> by the National Assembly. Simultaneously placed <i>on line</i> on the TA web-site.
5. Quarterly details of contract awards in excess of equivalent of US\$ 100,000.	Direcção Nacional de Património do Estado – Unidade Funcional de Supervisão das Aquisições (UFSA)	Printed reports available and also downloadable from: www.concursospublicos.gov.mz	Information on contract awards is available within days of contract decisions but on the other hand the value of the contracts awarded is not presented. It is also possible to obtain information on tenders launched, closed, pending and awarded and this information is classified geographically (central government, by province and by district). Upon being contacted, UFSA were able to make financial information available on contract awards in excess of US\$ 100,000. However, as this information is not automatically published and made available on a quarterly basis by UFSA, the requirements for this indicator are not fulfilled.
6. Resources available to primary service units (eg. schools, clinics.)	This requirement is not fulfilled as annual budget allocations and expenditures at the primary service unit level are not made available either by DNT or by the sector ministries directly or through their respective web-sites.		

Comparison of 2004 & 2006

86. Between 2004 and 2006, the scoring for this indicator improved from a “C” (with 2 of 6 elements available in 2004) to a “B” (with 4 of 6 elements available.) A number of relevant improvements have been made, notably:

- The release of Budget documentation at the same time it is submitted to the National Assembly for consideration;
- Improvements in the timeliness of publication of the budget execution reports (fulfilling the legal requirement for publication within 45 days from the end of the quarter) and its availability in electronic form; and
- The setting up of UFSA within DNPE and the publication of information on contract awards on their web-site – with information on contract values available upon direct request.

Trends in 2007

87. An increasing number of government organisations are starting to manage web-sites and this is steadily increasing both the range and timeliness of public information. This tendency is expected to continue and it seems likely that those organisations that have not traditionally maintained web-sites – such as for example DNCP, will begin to do so and to place on line, for example, the budget execution reports and the CGE.

88. Improving the capacity of the Imprensa Nacional de Moçambique as the entity officially responsible for the publication and dissemination of the different public finance documents is an issue which deserves serious attention. Significant gains would result from the establishment of a web-site for the Imprensa Nacional and from addressing the various constraints that currently delay the printing and distribution of documents.

4.4 Policy-based Budgeting

Indicator	Dimension	2004 Assessment		2006 Assessment	
PI – II: Orderliness and participation in the annual budget process	(i) Existence of and adherence to a fixed budget calendar.	A	B	A	B+
	(ii) Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent).	C		A	
	(iii) Timely budget approval by the legislature or similarly mandated body (within the last three years).	C		C	

2006 Assessment

89. The process of preparation of the State Budget in Mozambique follows an annual budgeting calendar, laid down in the law establishing SISTAFE and in the related regulations (Artigo n.º 7 do Decreto 23/2004). This starts in May of each year with the approval by Cabinet and subsequent distribution to the ministries, departments and agencies of the Ministry of Finance budget preparation circular (in 2007 the circular was sent on the 12th, June). The Ministry of Planning & Development, in coordination with the Ministry of Finance, publishes a companion document to the circular, which contains methodological guidelines and budget ceilings. The circular and this related document provide ceilings for the annual budget, indicative limits for a three year period and instructions to the ministries, departments and agencies on the preparation of their budget proposals. In 2007, both documents were submitted for approval by Cabinet. Notwithstanding some continuing uncertainties over the precise roles of the ministries of Finance and Planning and Development within the budget preparation process, it should be said that the instructions are clear and comprehensive. They are supported by written methodological guidelines and standard formats for the presentation of data, which are included within the circular and its annexes and also made available on the web-site of the National Budget Directorate (DNO).
90. By end-July, the agencies need to submit their proposals. These are subsequently reviewed by DNO, discussed with the agencies and then aggregated for submission to Cabinet in mid-September of each year and to the National Assembly (Assembleia da República) by the end of September. The Budget Proposal should be approved by the National Assembly before the end of the year so that execution may begin from January of the subsequent year. Traditionally, in Mozambique, the approval of the Budget is the last activity undertaken by the National Assembly before the Christmas recess and the first law formally published in each year is the Budget Law. The 2005 Budget was delayed by 5 months due to the general elections which took place in December 2004 but the 2006 and 2007 budgets were approved on time.
91. In 2007, this calendar was followed but the sectors were not permitted sufficient time for the preparation of their proposals due to the delay in the approval of the CFMP (MTEF) by the Cabinet (Conselho de Ministros). As in 2006, the preparation of the draft budget was guided by the approved Cenário Fiscal de Médio Prazo (MTEF), which detailed the principal macroeconomic assumptions as well as the revenue and expenditure ceilings for the preparation of the budget. In contrast to previous years, in the 2008 budget preparation cycle, the CFMP was formally approved by Cabinet and this has now become a key part of the budget preparation process.
92. Preparation of the CFMP 2008 – 2010 was initiated in November 2006 with the distribution of its methodological guidelines and the request for medium term expenditure proposals from the

sectors. Notwithstanding the positive development which the enhanced role of the CFMP represents (due to the fact that it is now approved by Cabinet), it should be noted that the late approval of the CFMP 2008-2010 led to a one month's delay in the start of the 2008 budget preparation cycle (which started in June rather than May 2007).

Comparison of 2004 & 2006

93. Overall, we have noted a number of improvements in the budget preparation process, notably:
- The use of the CFMP as a reference framework for budgetary projections;
 - The formal approval of budgetary ceilings by the Cabinet;
 - The preparation of budgetary submissions *on line* through the use of the Budget Execution Module (*Módulo de Execução Orçamental*) of the e-SISTAFE system;
 - The holding of regular meetings with sector agencies to disseminate the circulars and methodological guidelines and to discuss initial CFMP and budget proposals.
94. Nevertheless, there remain areas where improvements are needed, in particular :
- The need for systematic cross-checking of the data recorded within the external investment component of the Budget with the information available from the ODAMOZ data-base on external financing;
 - The need for more detailed coding of the externally financed projects listed in the Budget, both to facilitate cross-checking of available finance and to provide more comprehensive information to the National Assembly;
 - The need to tighten up the calendar for approval of the CFMP so as to avoid delays in subsequent budget preparation processes and to allow the sector agencies more time for the preparation of their budgetary submissions.
95. Nevertheless, these are not the specific weaknesses that have served to reduce the scoring against this indicator (although they may have impacted on indicator D-2). It is the 5-month delay in the approval of the 2005 State Budget (due to the December 2004 elections) which has reduced the score against the third dimension of the indicator, leading to a “B+” score overall rather than an “A”.

Trends in 2007

96. The MEO module of the e-SISTAFE has been further developed during 2007, which should facilitate preparation of the 2009 Budget. Moreover, the 2008 Budget was approved before the end of December and if a similar record is maintained for future budgets, “A” scores against this indicator should be expected.

Indicator	Dimension	2004 Assessment		2006 Assessment	
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+
	(ii) Scope and frequency of debt sustainability analysis	A		A	
	(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure	C		C	
	(iv) Linkages between investment budgets and forward expenditure estimates	C		D	

2006 Assessment

97. The Cenário Fiscal de Médio Prazo (CFMP), Mozambique's MTEF13, has become one of the fundamental planning instruments within the budgetary preparation cycle. It provides a formal framework for the development of the macroeconomic strategy and for short and medium term sector planning, which has a legal basis laid down in Article 45 of Law 9/2002 (the 'SISTAFE law'). The objective of the CFMP is to define indicative expenditure limits for a three year period to be communicated to ministries, departments and agencies as a framework for their budgeting and planning processes. In Mozambique, the use of the CFMP as a formal instrument of public finance management is recent as the 2007 – 2009 CFMP was the first to be discussed and approved by the Executive (through the Cabinet), after having been used for some years as an internal planning exercise within the Ministry of Finance and Planning.
98. Unfortunately, the usefulness of the CFMP has been undermined by the poor quality of its medium term forecasts. While, as could be expected, there is a reasonable correspondence between aggregates in the CFMP and in the budget (OE) for the same year, there are significant discrepancies between forward estimates and budget figures for the following two years. At the aggregate level, these discrepancies derive predominantly from differences between the OE and the CFMP in the coverage of externally financed projects and in the underlying inflation assumptions. At the sector by sector level, the discrepancies are still greater, reflecting the fact that the main vehicle for prioritisation of allocations is the annual budget process rather than the CFMP. In short, the CFMP exists as a tool of medium term planning but its weaknesses mean that it is not yet very effective. The weak links between the CFMP and the annual budget result in a "C" score for this dimension of the indicator.

¹³ The literal translation is Medium Term Fiscal Framework but the CFMP is more comprehensive and detailed than a fiscal framework would normally be. In particular, it includes medium term projections by the ministries, departments and agencies within each sector – something which would normally be considered a defining characteristic of an MTEF.

99. Since the accession of Mozambique to HIPC relief, annual debt sustainability analyses for both internal and external debt have been undertaken jointly by the Ministry of Finance and the IMF in the context of the Article IV discussions, meriting an “A” score for this dimension of the indicator. Nevertheless, Mozambique needs to make continued efforts to develop local capacity to undertake such analyses, so as to reduce its reliance on external support. A debt management strategy is under preparation, with support from Debt Relief International.
100. Consistent forward-looking estimates and multi-year perspectives are more difficult to find at the sectoral level. For the 2007-2009 and 2008-10 CFMP exercises, most of the sector agencies developed sectoral strategic plans defining objectives and policies for a short to medium-term horizon of 3 to 5 years. However, these strategic plans are not fully costed in terms of the recurrent and capital financing implications of the indicated policies. More often they provide statements of desirable scenarios which are not resource-constrained, and are used more for fund-raising than for policy-making purposes. The health and education sectors are more advanced in this respect than others, having produced fully costed sector strategies for PARPA 2, which have since been updated. Nevertheless, substantial qualitative improvements will be needed, if the score for this dimension is to rise above the “C” it currently merits.
101. The poor link between long-term strategies, medium-term policies and annual budgets is also reflected in the overall lack of investment plans that prioritise interventions according to resource availability and recurrent cost implications. In part, this lack of an adequate long-term perspective might be due to the heavy influence of donor funding in many of the main sectors. Fragmented donor funding inevitably undermines serious planning and forecasting. Sector-Wide Approaches, now well established in agriculture, education and health, are trying to address this issue by promoting more coordinated interventions based on a common policy framework jointly negotiated with the Government. Nevertheless, the team were unable to identify any cases of investment decisions whose future recurrent cost implications had been explicitly calculated and incorporated in forward estimates. Thus, budgeting for investment and for recurrent spending are effectively separate processes, meriting a “D” score for this dimension.

Comparison of 2004 & 2006

102. During 2005 and 2006, substantive efforts have been made to strengthen the quality of planning, through the use of the CFMP. In particular, we observed a significant improvement in the quality of the presentation of sector strategies within the CFMP document. Nevertheless, the basic weaknesses observed in 2004 have continued into 2006 and beyond – most significantly, the lack of reliable projections for future years, the lack of realistic sectoral strategies, and the absence of planning for the recurrent costs of investment decisions. It should be acknowledged that, at the time of the development of their CFMPs, agencies do not have agreed commitments from their

Development Partners for investment expenditures by project – which represents a very serious information gap for this process. Nevertheless, major improvements in these areas will need to be achieved if a more reliable system of multi-year planning and budgeting is to be established.

Trends in 2007

103. The CFMP of 2008 – 2010 is significantly different to the CFMP of 2007 – 2009 especially in relation to the quality of information provided by sector agencies. One influencing factor was the introduction for 2008-2010 of a sector strategy preparation process built upon a programmatic, service-based vision, within which sector agencies tried to define which services they would be delivering over the next three years and at what levels, deriving expenditure projections for these requirements. Programme planning and budgeting is a new initiative in Mozambique, which the team were informed is to be introduced on a pilot basis within education, roads and agriculture during 2008. The documentation for the 2008 State Budget does not, however, provide any information on this.

4.5 Predictability and Control in Budget Execution

Indicator	Dimension	Assessment 2004		Assessment 2006	
PI – 13: Transparency of Taxpayer obligations and liabilities	(i) Clarity and comprehensiveness of tax liabilities	B	B	B	B+
	(ii) Taxpayer access to information on tax liabilities and administrative procedures	A		A	
	(iii) Existence and functioning of a tax appeal mechanism	C		B	

2006 Assessment

104. Important new tax legislation was approved in 2006, the Lei 2/2006 - Lei Geral Tributária – which aimed to consolidate laws which had been very dispersed, unifying and updating their contents within a single legal instrument, addressing all principal tax matters. The principal tax instruments – IRPS, IRPC, SISA, Stamp Duty, Vehicle License Tax and VAT – retain their own legislation and regulations which are comprehensive, detailed and clear. The discretionary powers of the government entities involved in tax collection are limited both by the Lei Geral Tributária (LGT) and by the laws and regulations governing the collection of the principal taxes. There are cases reported by the private sector in which tax inspectors make decisions and take actions on a discretionary basis but there does exist a code of fiscal benefits (Código de Benefícios Fiscais) where the rules on applicability of tax benefits are clearly defined and which, in combination with other relevant regulations, determines the value of tax exemptions/ the limits for exemptions/

and the level of authority at which such exemptions may be granted. Discretionary powers are fairly limited and any exceptions need to be approved by the Minister of Finance and in the case of tax benefits (for example, for large scale investments) by the National Assembly. Nevertheless, we judge that more evidence from taxpayers of the stricter application of discretionary powers would be required in order to merit an “A” rather than a “B” score against this dimension.

105. There exists ample access to the key elements of fiscal information both in relation to Taxes and Customs. This has taken a variety of forms: information pamphlets, training seminars, provincial visits, sensitisation campaigns on fiscal fraud, the distribution of the annual fiscal calendar, distribution of information on the different fiscal regimes and their application, monthly working meetings with CTA (the private sector representative body), expansion of the taxpayer information services, the linha verde (green line) service counters, and even direct attention and advice to public servants to assist them in regularising their tax position. The information made available through these mechanisms is relatively comprehensive, including information on the applicable legislation, and on the different methods of making and processing tax declarations and making tax payments. In general, the information is accessible and readily understandable. There are two webpages, where detailed information can be accessed and downloaded: www.alfandegas.gov.mz e www.dgati.gov.mz. In addition, the web page of the tax reform unit, URTI – Unidade de Reforma Tributária dos Impostos Internos remains in operation and provides access to all relevant legislation: <http://www.urti.gov.mz/>. And, finally we also highlight the launch of the publication, Revista Tributária by the ATM (Autoridade Tributária de Moçambique) which includes, amongst other things, details on the level of collection of tax revenues.

106. The LGT (Lei Geral Tributária) makes provision for the review of tax decisions by the tax authority, for appeal by the tax payer and for final third party adjudication. Third party adjudication is managed by the Tribunal Administrativo under Law 5/92 of 6th, May. (Article 27, sections a to e.) The law establishes clearly the relevant procedures and time periods for each of these processes and this information is readily available to the public through the mechanisms described above. However, due to the recent introduction of the LGT, it is still too early to evaluate the effectiveness of the system and its functionality, hence a “B” score is accorded to this dimension.

Comparison of 2004 & 2006

107. Since the time of the last PEFA assessment, a series of major institutional changes have taken place in this area. The LGT (*Lei Geral Tributária*) has been approved and the process of establishing Fiscal Tribunals has continued. The former General Directorate of Customs, DGA – *Direcção Geral de Alfândegas* and General Directorate of Taxes, DGI – *Direcção Geral de Impostos* were

united at the outset of 2006 within ATM – *Autoridade Tributária de Moçambique*. The legal framework for the ATM (Lei 1/2006) was approved immediately prior to the approval of the LGT (Lei 2/2006). The ATM is the principal driver of the restructuring of the administrative framework for revenue collection in Mozambique and has responsibility for promoting in an integrated manner the simplification and continuous development of the tax system. It is headed by a President and five Director Generals.

108. The more immediate impact of these legal and institutional changes can be seen in relation to indicators PI-14 and 15. Regarding this indicator, there has been considerable progress in relation to improved taxpayer's access to information, the creation of a tax appeals mechanism and the improved clarity and comprehensiveness of tax liabilities. In relation to the latter we nevertheless judge that further progress is needed before a PEFA assessment could be confident in describing the levels of discretionary powers as 'strictly limited', the requirement for an "A" score on this dimension.

Trends in 2007

109. The continued improvement of taxpayer access to fiscal information has been a key feature of 2007 and this is likely to continue over 2008 and 2009. The establishment of the ATM and the initiation of the implementation of its Strategic Plan have also been defining events, which will contribute both to expanded tax collections and to an increased awareness of tax responsibilities.

Indicator	Dimension	2004 Assessment		2006 Assessment	
PI – 14: Effectiveness of measures for taxpayer registration and tax assessment	(i) Controls in taxpayer registration system	B	C+	B	B
	(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	C		B	
	(iii) Planning and monitoring of tax audit and fraud investigation programmes	C		B	

2006 Assessment

110. Taxpayers are registered, upon completion of a registration form (which may be individual or collective) in a computerised data-base, known as the taxpayer register (*cadastro de contribuintes*). The register functions as an *on line* database between the different divisions of ATM and is networked to the provincial and, more recently, the district levels. Three districts are already on the network. All taxpayers are assigned a unique registration number - a NUIT (*Número Único de Identificação Tributario*) which features on the taxpayer register. By reconciling the taxpayer register with the SIRC (*Sistema de Contabilização e Reporte da Receita*), the ATM's revenue

accounting and reporting system, which also uses the NUIT, it is possible to identify registered taxpayers with outstanding payment obligations. The tax and customs data-base (TIMS) is not networked to the taxpayer register but insertion of a NUIT is a pre-requirement for TIMS so that import and export declarations cannot be processed without it. However, the use of the NUIT is not yet a comprehensive feature of non-revenue related data-bases such as business licensing systems. Similarly, although the banking system does normally require a NUIT in order for a bank account to be opened, there is no systematic mechanism for registering compliance with this requirement nor are there are sanctions imposed upon banks for non-enforcement. A more comprehensive set of linkages to financial sector and non-tax related data-bases would be required in order to increase the coverage of non-registered potential tax payers. The absence of such linkages gives a “B” rather than an “A” score for this dimension of the indicator.

111. A system of penalties for non-compliance with fiscal obligations is in operation known as the REGIT: *Regime Geral de Infracções Tributárias* (Decreto 46/2002), which establishes the limits and maximum ceilings for the penalties and fines to be applied for different types of tax infringements. The LGT provides the typology of tax infringements and the REGIT determines the fines to be paid (and, for example, in cases of voluntary advance payments has provisions to reduce the value of the sanction). It is considered by ATM that the rules are set at an appropriate level to act as an effective deterrent to non-compliance. Controls are applied in line with an annual cycle of tax assessments and collections, drawing upon the information on non-compliance which emerges from the existing management information system described above. In the view of the PEFA team, the structure of penalties seems sound but more evidence would be required of its comprehensive and consistent application in order to merit an “A” score on this dimension.
112. A plan for tax audits and fraud investigations is in operation known as the PAFT – *Plano de Actividades de Fiscalização Tributária*, which is based on clear set of guiding principles. Decree 19/2005 establishes the development and implementation of this plan as an obligatory requirement for the ATM. The first such national plan was prepared during 2006 for implementation during 2007 under the management of the *Direcção de Auditoria e Fiscalização* of the ATM. This unit comprises 21 technical staff, who work as ten intervention teams. The audit plan for 2007 makes provision for 675 audits, which are programmed with respect to criteria of highest fiscal risk and maximum revenue potential. Within Customs, the Directorate of Investigation and Information, through its audit department (since 2006) undertakes post-disembarkment inspections.

Comparison of 2004 & 2006

113. The major developments with regard to this indicator since the last PEFA assessment concern (i) the merging of DGI and DGA within the ATM; (ii) the approval of the LGT and the coordination of its implementation in combination with the REGIT structure of penalties and (iii) the

development of an audit plan as an obligatory requirement of the ATM decree. These system developments have permitted a modest improvement in the scoring against this indicator from a “C+” to a “B”. There is as yet insufficient experience to make a judgement on the effectiveness of these actions and their likely effect upon the behaviour of taxpayers and the level of revenue collections by ATM. More detailed assessments will need to be conducted over the next two years to make this possible. In the meantime, we believe that more attention needs to be paid to the expanded use of the NUIT within the banking system and in other non-tax related data-bases.

Trends in 2007

114. Significant improvements in all dimensions of this indicator should be expected over 2007 and beyond as a consequence of the implementation of the ongoing programme of tax reforms. In addition, an ‘e-taxation’ project is currently under development between AT and UTRAFE. This is still in a development phase and substantial further refinement is likely to be necessary before it can be tested, completed and rolled out. However, this project will permit the integrated application of the NUIT system for both domestic and trade taxes, allowing the register of taxpayers to be regularly updated and for information to be systematically exchanged between the different tax and customs systems.

Indicator	Dimension	2004 Assessment		2006 Assessment	
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 last 2 fiscal years).	D	D+	D	D+
	(ii) Effectiveness of transfer of revenue collections to the Treasury by the revenue administration.	B		B	
	(iii) Frequency of complete accounts reconciliation between assessments, collections, arrears and receipts by Treasury.	B		A	

2006 Assessment

115. In 2005, the proportion of gross tax arrears collected was only 3.93%. In 2006, a figure of 3.94% was registered. These figures are dramatically below even the 60 % benchmark which would be required to obtain a “C” score for this dimension of the indicator. At the end of 2006, the outstanding stock of tax arrears was calculated at Mts. 1.4 million, comprising approximately 219 thousand tax cases. In August 2007, a plan for collection of outstanding arrears was developed (*Projecto de Recuperação e Controlo da Dívida Tributária*) and simultaneous steps were taken to increase the number of officers directed to this task.

- I 16. Regarding the mechanisms for transfer of revenue collections to the Treasury, the Directorate for each tax area holds an ‘intermediary’ bank account in which tax collections are deposited, for subsequent transfer to the CUT, after the reconciliation of banking and accounting records. There is a set of procedures (specifying limits for the bank balances which may be held), which dictate how frequently these transfers should be made but, in general there are several transfers per week. Transfers to the CUT are classified according to the different types of tax to which they correspond. Overall, the system appears to work relatively efficiently and merits a “B” score for this dimension of the indicator. An “A” score would require payments to be made directly into the Treasury Account or for transfers to be made daily.
- I 17. There are two aspects of the reconciliation process - the reconciliation of tax assessments to actual collections and outstanding arrears and the reconciliation of bank transfers to the CUT. Within the e-SISTAFE system, the process of preparing and registering a tax assessment is exactly equivalent to that of making an expenditure commitment (and in Portuguese is also called a *cabimentação*). Within the e-SISTAFE system used by ATM to account for tax collections, it is not possible to register a tax collection without a prior assessment having been issued, with its corresponding *cabimentação*. Similarly, there is a finite time period during which a *cabimentação* may remain open before a corresponding *liquidação* (a liquidation - in this case a tax payment) must be paid or a formal cancellation of the *cabimentação* introduced, corresponding in the case of tax collections to the registering of outstanding tax arrears. The e-SISTAFE accounting system utilised by the ATM thus generates an automatic reconciliation of assessments, collections and arrears, to which the DNT have readers’ access through their on-line connection to the e-SISTAFE system.
- I 18. In relation to bank reconciliations, the Directorate of each tax area holds an ‘intermediary’, holding back account as we noted above, into which collections are paid before their transfer to the CUT. This can only be credited through tax payments and only debited in order to make transfers to the CUT. A daily balance is prepared to show these credits and debits and there is a specific form provided by DNT, which allows these balances to be reconciled to the accounting records generated by e-SISTAFE for each tax area. These daily reconciliations are in turn forwarded to DNT. Overall, then, the system of bank and accounts reconciliations would appear to be working very effectively, meriting an “A” score for this dimension.

Comparison of 2004 & 2006

- I 19. The overall score against this indicator has not changed between 2004 and 2006, principally because the level of tax arrears continues to be relatively high and the level of collections of these arrears is remarkably low. As we noted above, steps have been taken to accelerate collection of arrears. This is very important to maintain the credibility of the tax collection system because if arrears are allowed to remain outstanding for long periods, then this can act as

a disincentive to prompt payment of taxes. We were unable to obtain an age profile of these arrears but we were advised that many of these have been outstanding for long periods and that, in general, the level of new arrears being generated is low. This is a positive finding, because it suggests that the problem is not one of chronic arrears generation but rather a problem of a historical 'hang-over'. If a big campaign to clear these outstanding arrears could be successfully mounted then the problem would be unlikely to repeat itself.

120. In relation to the mechanisms for bank and accounts reconciliation and for transfer of tax collections to the Single treasury account (CUT), big improvements have been observed but their significance for this indicator is outweighed by the continuing arrears problem.

Trends in 2007

121. We have noted above the importance of the August 2007 plan to accelerate collection of arrears. Given staffing constraints, we suspect that it would be difficult to make substantial progress in the short term and renewed efforts to accelerate arrears collections are likely to be needed in 2008 and 2009.

Indicator	Dimension	2004 Assessment		2006 Assessment	
PI – 16: Predictability in the availability of funds for commitment of expenditures	(i) Extent to which cash flows are forecast and monitored.	A	D+	A	C+
	(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment	C		B	
	(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs	D		C	

2006 Assessment

122. Predictability in the availability of funds has been assessed with reference to the procedures for cash flow forecasting and management, the mechanisms for the management of within-year treasury ceilings on expenditure and the frequency and transparency of adjustments to budget allocations made by the Ministry of Finance. Cash flow forecasts are prepared for the fiscal year and updated and monitored every week by the Treasury on the basis of actual cash inflows and outflows, meriting an "A" score against this dimension of the indicator.

123. Information on commitment ceilings for the main budget holders (UGEs) is provided through the e-SISTAFE system and normally covers a period of three months. UGEs are responsible for preparing their cash management plans, taking account of the needs of the subordinate budget

entities falling within their remits. Subordinate budget entities (UGBs) continue to execute their budgets through funds advances: information on their ceilings for expenditure commitments is submitted for a two monthly period in line with the 'duodecimal' system of budget transfers. Thus, commitment ceilings are normally managed on a quarterly basis, meriting a "B" score for this dimension of the indicator. (It should be noted that these commitment ceilings refer only to financing passing through the CUT. Externally financed projects which do not pass through the CUT establish such arrangements directly with funding agencies. Ideally, this should not happen but we do not judge this as a weakness in this indicator but as a weakness in donor practices, D2 and D3.)

124. Over the three year period of 2004 - 2006, substantial within-year budget adjustments were frequently decided at a management level above those of the budget holding entities (the UGEs). During 2006, these adjustments were made in a relatively transparent way, with the knowledge and involvement of the UGEs. Nevertheless, the scope of these adjustments was relatively large (as may be seen from an analysis of Indicator PI-2), which necessarily reduced the level of control of the UGEs over the process of budget execution. It is the low score against this dimension ("C") which reduces the overall score for this indicator to a "C+". Resolution of this problem is partly to do with improving the quality of budget preparation and analysis so as to increase the realism of the budgets presented to the National Assembly for approval. In addition, a more formal set of procedures is needed for the management and reporting of budgetary reallocations so that these may be made at pre-defined periods of the year, as part of the quarterly expenditure reporting process.

Comparison of 2004 & 2006

125. The score against this indicator increased from a "D+" to a "C+". The principal reason for this change was due to the introduction of a quarterly system of setting expenditure commitment ceilings through the e-SISTAFE system. The increased use of direct execution modalities (rather than execution through funds advances) has also facilitated good cashflow management by DNT. Unfortunately, a shift to a half-yearly system of programming expenditure commitments is unlikely in the absence of significant improvements in the quality of the initially approved budget. A more precise and more comprehensive Budget would reduce the need for the regular and relatively large budgetary virements and re-allocations, which continue to characterise the State Budget. In this sense, the score against this indicator is closely linked to the performance against Indicator PI-2.

Trends in 2007

126. The quarterly system of programming expenditure commitments through the e-SISTAFE system was only introduced in 2006 and the budget holding entities are still learning how to use this programming tool effectively. Part of the problem is that it is a totally new practice in that the former system of two monthly advances under the 'duodecimal' system did not require any

programming of cash needs by budget holders. During 2007, budget holders have developed the use of this tool and with the expansion of direct budget execution, it has become increasingly important.

Indicator	Dimension	Assessment 2004		Assessment 2006	
PI – 17: Recording and management of cash balances, debt and guarantees	(i) Quality of debt data recording and reporting	B	B+	A	A
	(ii) Extent of consolidation of the government's cash balances.	B		B	
	(iii) Systems for contracting loans and issuance of guarantees.	A		A	

2006 Assessment

127. Performance with regard to the recording and management of cash balances, debt and guarantees has continued to be good. The quality of debt data recording and reporting is high. External debt records are complete, updated and reconciled on a monthly basis through the CS-DRMS system. Domestic debt records are kept separately. A monthly reconciliation 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. (The format for this report is not yet standardised. However, in the context of activities supported by the FSTAP project - Financial Sector Technical Assistance Project – a work programme has been agreed for the development of a standardised reporting format, which will then require formal approval.)

128. Most of government's cash balances are calculated and consolidated weekly, but there are still substantial off budget funds remaining outside this arrangement. The single Treasury account (CUT) is reconciled daily through the e-SISTAFE. Up to 2005, the DNT used to use the commercial banks' SAP system for recording the financial transactions taking place between the commercial banks and the Government. It subsequently started to use the Central Bank's STF (*Sistema de Transferencias Financeiras*) for this purpose. Since 2006, DNT has been managing this process directly utilising the e-SISTAFE system to directly credit its accounts in the commercial banks without having to use the Central bank as an intermediary.

129. The system for contracting of loans and issuance of guarantees is clear and managed within defined limits for total debt and total guarantees. The Ministry of Finance is the sole government entity responsible for negotiating and approving loans or guarantees. The contracting of a loan requires the approval of the Ministry of Finance of the purpose of the loan and must obey the conditions laid down in the Budget law, which requires a minimum level of concessionality of

35%. Guarantees are only issued in exceptional circumstances and must respect the limits laid down in the Budget law (in 2006, this limit was equivalent to US\$ 2 million).

Comparison of 2004 & 2006

130. Substantial progress has been made in recent years to strengthen the quality of cash and debt management. A new debt strategy has been evolving since 2005 and management capacities have simultaneously been built up. It was therefore possible, from 2006 onwards, to start issuing a quarterly (rather than an annual) debt report. Similarly, with the on-going implementation of e-SISTAFE, bank reconciliation processes have become increasingly simpler and quicker.

Trends in 2007

131. 2007 was a year of consolidation in the use of the e-SISTAFE system for the management of the Single Treasury Account (CUT) and also a year in which the use of direct budget execution became obligatory for all budget holders UGEs. Overall, this has brought significant positive effects for cash management.

132. However, there remains one problematic area which is not directly addressed by these reforms. The coverage of cash-flow forecasting processes needs to be extended to include investment expenditures. At present, cash flow forecasts in principle include the internally financed component of investment projects but these forecasts are inevitably weak given that the timing of counterpart fund disbursements is linked to the flow of external finance for projects on which there is no reliable information. Essentially what is needed is a reliable system for line ministries to advise DNT of the cash-flow forecasts for projects and for DNT to confirm the level and timing of internal funds which ministries should expect. This can only be effectively achieved by increasing the predictability of disbursements of external project funds and by increasing the use of the CUT by externally financed projects.

133. In late 2006, a joint working team was established, comprising Government and the Development Partners with the express objective of increasing the level of external funds incorporated in the CUT. This has continued to work through 2007. Simultaneously, Government launched a pilot project to develop a facility for retaining multiple currency accounts within the CUT, in order to address concerns by Development Partners over the potential foreign exchange losses that might derive from placing project balances in Meticais within the CUT. This multi-currency facility is currently being piloted for the management of the UTRAFE Common Fund.

Indicator	Dimension	Assessment 2004		Assessment 2006	
PI – 18: Effectiveness of payroll controls	(i) Degree of integration and reconciliation between personnel records and payroll data	D	D+	B	B
	(ii) Timeliness of changes to personnel records and the payroll	D		B	
	(iii) Internal controls of changes to personnel records and the payroll	C		B	
	(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers.	C		B	

2006 Assessment

134. The process of payment of salaries for public servants begins with the process of nomination or contracting of the public servants, which takes effect upon the granting of the approval (*Visto*) of the *Tribunal Administrativo*. Only after the granting of this *Visto* can public servants be admitted onto the relevant Government payroll system. There are 12 computerised government payroll systems – one for the Defence ministry, one for all other central government departments and for the staff of Maputo province and one for each of the other 10 provinces.
135. The integrity of the individual payrolls is checked monthly and any necessary alterations to the system can be made at that time. The payroll for the new month is checked against the previous month's payroll first by the budget holding entity – specifically by the payments section (*Secção de Vencimentos*) of the Directorate of Finance & Administration (*DAF*) and then by DNCP for central level agencies or by the relevant DPPF for provinces. Only after this second verification by DNCP or DPPF are monthly allocations for salary payments authorised. Any additions to the payroll or adjustments of personnel details are made through the same process, with the necessary personnel records and copies of the *Visto* of the *Tribunal Administrativo* attached.
136. The various payrolls are subject to audit inspections by IGF (most recent IGF audit : 2004) and by the *Tribunal Administrativo* (2006). The PEFA team were informed that the most recent audits did not identify any material concerns but we were unable to obtain copies of these audit reports in order to directly verify this. There exist further internal controls to protect the integrity of the payroll, notably the annual requirement for a “proof of life” (*prova de vida*), in which a Notary is required to personally confirm the existence of each public servant.

Comparison of 2004 & 2006

137. Performance against this indicator has improved significantly over 2004 to 2006, principally as a result of a sharply increased awareness of the potential problems which weak payroll controls might cause. Closer coordination between sector ministries, DNCP and the *Tribunal Administrativo* has served to tighten these controls significantly, with consequent improvements to the integrity of the payrolls and a reduction in the delays previously experienced in the processing of payroll changes.
138. In the 2004 PEFA, it was observed that the effectiveness of payroll control was significantly undermined by the lack of a complete and integrated link between personnel records, the personnel data-base and the payroll system. Recognising that an integrated personnel and payroll data-base could not be created in the short term, over 2004 to 2006 DNCP started to apply a series of more rigorous controls to the salary payment process. For example, requests for payroll alterations started to be verified centrally by DNCP based upon analysis of all necessary supporting documentation, followed by a further verification process at the level of the institution and then a final check by DNCP prior to authorisation of the monthly payroll. The development of an updated personnel data-base which could be systematically reconciled with the payroll remains a medium term objective but, in the meantime, the application of systematic manual controls has already made a significant difference.

Trends in 2007

139. A standard register of the public servants and agents of the State (*Cadastro dos Funcionários e Agentes do Estado*) was initiated in 2007, through the launch of a national census of all public servants, which has also introduced a finger-print identification system. This standard register will replace the former *Sistema Integrado do Pessoal*, which used to be kept in the *Ministério de Administração Estatal* and has not been effectively updated. The responsibility for human resource management within the public service was in 2007 transferred from MAE to the new Ministry of the Public Service (*Ministério da Função Pública – MFP*). Amongst its other competencies, MFP will be responsible for the development, maintenance and updating of the *Cadastro dos Funcionários e Agentes do Estado* and will therefore need to work closely with DNCP and with the ministries, departments and agencies to ensure the systematic reconciliation of personnel and payroll records. As such, the MFP will play a crucial role in future performance against this indicator and it is therefore important that it should be closely involved in any future PEFA assessments.
140. The ongoing development and installation of the e-SISTAFE will also be of considerable importance to the performance of this indicator. The development of a payroll application within e-SISTAFE, indicatively titled *e-Folha*, is now under consideration and this may prove an effective way of integrating the multiple payroll systems which currently exist, whilst also networking the payroll directly to the e-SISTAFE payment and accounting systems. There may be other ways of

achieving a higher level of integration than is currently possible, without necessarily developing a payroll module within e-SISTAFE. It will be important to examine carefully the full range of options before embarking on what it is likely to be a relatively expensive and complicated software development process.

Indicator	Dimension	Assessment 2004		Assessment 2006	
PI – 19: Competition, value for money and controls in procurement	(i) Evidence on the use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases (percentage of the number of contract awards that are above the threshold)	C	C	B	B
	(ii) Extent of justification for use of less competitive procurement methods	C		C	
	(iii) Existence and operation of a procurement complaints mechanism	C		B	

2006 Assessment

141. New legislation on public procurement was approved in December 2005, through the Decreto 54/2005 – *Regulamento de Contratação de Empreitada de Obras Públicas, Fornecimento de Bens e Prestação de Serviços ao Estado*, which came into force from the beginning of July 2006. In line with the regulations included in this decree, Government created in September 2006 the Operating Unit for the Supervision of Procurement - UFSA – *Unidade Funcional de Supervisão das Aquisições*, as a unit within the *Direcção Nacional do Património do Estado* (the National Directorate for State Assets). The UFSA unit has responsibility for guiding budget holders in the process of procurement and for monitoring the procedures applied and the outcomes of those processes
142. As a requirement of the new regulations, all contracts, above the nationally established limit for small purchases, should be advertised to the public (at the different phases of the tender and contract award process) through publication in mass circulation media. UFSA regularly receives this information from sector agencies and, of its own initiative, also collects such information from the national press. The resulting data are maintained in UFSA's statistical data-base. However, UFSA still has capacity limitations and does not yet have complete, or almost complete, data on the numbers and types of procurement processes undertaken above the established limit for small purchases. This is especially true for 2006 – the year on which this PEFA assessment focuses – because UFSA was not in operation until September.

143. Nevertheless, UFSA do have partial data available for the second semester of 2006. These record that a total of 196 contract awards were made for amounts above the thresholds for small purchases, broken down as follows:

2nd Semester 2006 - Competitive Tenders (out of 196 registered)

Tipo de Concurso	N.º Total	% do Total
Public Tenders - <i>Concursos Públicos</i>	129	65.8 %
Limited Tenders - <i>Concursos Limitados</i>	8	4.1 %
Pre-qualification Tenders - <i>Concursos com prévia qualificação</i>	2	1.0 %
TOTAL	139	70.9 %

2nd Semester 2006 Non-Competitive Contract Awards (out of 196 registered)

Tipo de Concurso	N.º Total	% do Total
Service contracts - <i>Contratações de serviços</i>	55	28.1 %
Direct Agreements - <i>Ajustes directos</i>	2	1.0 %
TOTAL	57	29.1 %

144. In the absence of accurate data, an “A” score can under no circumstances be awarded for this dimension of the indicator. The data available is not complete and we may assume that such data would tend to under-record the numbers of contracts awarded by non-competitive means, given that institutions are likely to want to avoid having to put to the test their ability to justify such awards. Nevertheless, the available data do show substantially more than 50 % of the awards above the threshold being awarded competitively. On this basis, we assess that a “B” score should be accorded to this dimension. Although the 2007 data (shown below) fall outside of the assessment period for this PEFA, they show 85 % of awards above the threshold being awarded competitively, suggesting there is some consistency with the data for 2006.

145. Non-competitive methods of procurement can sometimes be justified but it is important that the regulatory basis for the use of such methods should be absolutely clear and that satisfactory justification should be systematically provided whenever such methods are used. In Mozambique, the most common form of non-competitive procurement is known as direct agreement or “*ajuste directo*”. The circumstances in which *ajuste directo* may be used are absolutely clear in the new legislation, as are the procedures to be followed. The procurement units within each budget holding entity (known as *Unidades Gestoras Executoras de Aquisições* - UGEAs) are required to send to UFSA information on the cases where use of this method is proposed and it must be properly justified and authorised in order to be applied. In 2006, when the new legislation was only in force for a few months, only two cases of “*ajuste directo*” were brought to the attention of UFSA. These were correctly justified and implemented. However, a much larger number of such cases must have occurred in 2006, perhaps following the legislation previously in force. Thus, we judge

that while Mozambique would score very highly on the clarity of the regulatory requirements, there is little evidence that these were comprehensively applied in 2006, meriting a “C” score for this dimension.

146. Regulations make provision for a mechanism for submitting complaints and/ or appealing against the result of a contract award process. Complaints are submitted to the competent higher authority (in most cases the *Tribunal Administrativo*, depending on the nature of the complaint and the scale and nature of the tender process in question), who may, by law, request the opinion of UFSA. In all cases, documentation of complaints is placed with UFSA, who monitor the process and maintain relevant statistics. Up to October 2007, 14 complaints had been received (10 at the central level, 3 at provincial and 1 at district level) and these had been duly followed up by UFSA. Thus, a clear complaints process involving higher authorities exists and is operational. However, there is not yet sufficient data, accessible to public scrutiny, on the resolution of complaints to merit an “A” score on this dimension, thus a “B” score is accorded.

Comparison of 2004 & 2006

147. Significant improvements in the legal and institutional framework for procurement have been achieved over 2004 a 2006, principally as a result of the coming into force in mid 2006 of new procurement regulations (Decreto 54/2005) and the subsequent establishment of UFSA and of the UGEAs within the budget holding entities. This package of reforms has had an immediate impact in clarifying the circumstances in which non-competitive contract awards may be justified and in introducing a clear and functional appeals and complaints system.

148. There is also some evidence¹⁴ that these reforms have served to increase the proportion of acquisitions above the threshold for small purchases which are made through competitive methods. Nevertheless, it is clear that most of the impact of these reforms on the actual structure of procurement processes and on the value for money achieved in the acquisition process has yet to be felt. Moreover, if significant positive benefits of this kind are to be reaped from the reform process, it is important that actions are taken to continue to strengthen the capabilities of UFSA and of the UGEAs in each ministry and province and to deepen knowledge, understanding and application of the new procurement legislation.

Trends in 2007

149. With institutional and legislative reforms being introduced in the procurement area only in mid-2006, it is to be expected that their impact would be rather greater in 2007, the first year of full implementation. We have not assessed this question comprehensively but the available data on

¹⁴ This evidence relates to the information presented on the first dimension of the indicator. We should recognize, however, that it is also possible that the improvement has been only in the level of information available, although even in itself this is a positive development.

the methods of procurement applied for acquisitions above the small purchases threshold do suggest an increase in the use of competitive procurement systems, as the table below shows.

2007 - Nature of contract awards for acquisitions above small purchases threshold

Level of Government	Competitive Acquisitions	Non-Competitive Acquisitions	Total
Central	480	85	565
Provincial	593	115	708
District	27	15	42
Autárquias	32	1	33
Public Enterprises	53	2	55
MOPH	70	1	71
TOTAL	1.255	219	1.474
Percentage of Total	85.1 %	14.9 %	100 %

150. As part of the ongoing development of e-SISTAFE, a register of the main suppliers of goods and services to the State is currently being compiled (*Cadastro de Fornecedores e Agentes do Estado*). The purpose is simply to have records available in advance so as to facilitate the payment processes and accounting procedures associated with procurement. We see this as a positive initiative and see no reason to suppose, as some private sector representatives have commented, that this might lead to some sort of favouritism between suppliers. All suppliers winning tender awards will need to be registered in e-SISTAFE in order to be paid so the system will naturally expand over time: the merit in advance registration is simply to reduce the number of administrative processes that would later be required. Important positive side-effects will be to help control fraud – reducing for example the potential for agents to compete under more than one name or identity – and to expand the numbers of taxpayers duly registered (as the registration process requires the submission of a NUIT.)

151. The PEFA assessment team were asked to comment on the potential usefulness of undertaking a more comprehensive evaluation of the procurement process in Mozambique, utilising the OECD-DAC methodology. This is a proven methodology which has been applied in developing and transition countries as well as in the OECD and would certainly provide a much more comprehensive assessment of the strengths and weaknesses of the Mozambican system, than is possible through the PEFA process, for example. Thus, it is certainly worth doing but the question is when? In this respect, our judgement is that procurement reforms and capacity building measures are still at an early stage in Mozambique and we would therefore recommend such an assessment in 2009, when new systems would be substantially in place and the authorities would be better placed to consider a new round of capacity development measures.

Indicator	Dimension	2004 Assessment		2006 Assessment	
PI – 20: Effectiveness of internal controls for non-salary expenditure	(i) <i>Effectiveness of expenditure commitment controls</i>	D	D+	B	B
	(ii) <i>Comprehensiveness, relevance and understanding of other internal control rules/procedures</i>	C		B	
	(iii) <i>Degree of compliance with rules for processing and recording transactions</i>	C		B	

2006 Assessment

152. The effectiveness of expenditure commitment controls has increased significantly as a consequence of the ongoing introduction of e-SISTAFE – first as an accounting tool (over 2005 and 2006) and more recently as a tool of direct budget execution (over late 2006 and 2007). Within the e-SISTAFE system, all payments require a prior commitment and commitments may only be made where there is both a budget appropriation and cash availability (as determined by the within-year cash ceilings set by DNT and established within the e-SISTAFE system.) For those agencies (or for those aspects of expenditure) being executed through advance of funds, it is the commitment (*cabimentação*), which makes the granting of the advance possible. When the advance is acquitted, the commitment is cleared (*liquidação*) and a further advance becomes possible. Those budget holders receiving advances take responsibility for issuing the purchase orders for the goods and services they require (working within the limits of the funds advanced) and for making payments. For expenditures being made by direct execution, the whole process from commitment to payment of the supplier is computerised and no cash is handled because payments are made directly from the CUT to suppliers.

153. In 2006, the majority of transactions continued to be executed by advance of funds but in contrast to 2005 and 2004, the accounting of these transactions was computerised on the e-SISTAFE system, creating an automatic record at central level (DNT and DNCP) of the commitments (in most cases, funds advances) being made within the central government system. Within the funds advance system, it still remained possible, in theory, for budget holders receiving advances to make orders for goods and services exceeding the value of the resources at their disposal. (With the move to direct execution, this possibility is fully eliminated.) However, even within the funds advance system predominant in 2006, such a practice was known to contravene the rules (both the older financial regulations and the e-SISTAFE regulations) and was controlled by the fact that funds advances were limited to 2 twelfths of the total budget at the outset of the year and one month thereafter, with tight time limits having to be respected for the acquittal of funds. Both our assessment of the system as it operated in 2006 and our discussions with the financial staff of the province of Maputo and of the health and education ministries

suggest to us that the system in place was effective in limiting commitments to cash availability and approved budget allocations, meriting a “B” score for this dimension of the indicator.

154. There exist other norms, rules and procedures for internal control which have been strengthened and standardised with the introduction of the e-SISTAFE legislation and regulations. One of the most important aspects of the new rules is the existence of agents with different degrees of access and user rights within the e-SISTAFE system, which helps to ensure a clear separation between functions related to the exercise of budget authority and those related to financial control. For example, there are three agents involved in processing a budgetary expenditure – a budgetary execution agent, a financial management agent and an internal control agent. The latter has the specific responsibility for ensuring full conformity with procedural and documentary requirements and must formally verify these matters within the system in order for a transaction to be closed. During 2006, with training in the use of the system still not complete, it appears that these internal control rules did, however, cause some delays and inefficiencies. For this reason, we accord a “B” score to this dimension.

155. In so far as the e-SISTAFE system requires the specified rules and controls to be applied and their application verified within the system, then a high degree of compliance becomes necessary. However, during 2006 when the system was still not fully in place, it seems that simplified/emergency procedures were sometimes applied by sector ministries and other budget holding entities. We therefore also accord a “B” score to the compliance dimension.

Comparison of 2004 & 2006

156. As we have noted above, major improvements in non-salary expenditure controls were registered as a result of the introduction of e-SISTAFE, raising scores against this indicator from “D+” in 2004 to “B” in 2006.

Trends in 2007

157. In 2006, the e-SISTAFE system was not fully installed across central government and only a small minority of transactions were being managed by direct execution. With the expansion of the number of institutions using e-SISTAFE and the increased use of the direct execution modality, performance against this indicator can be expected to improve further. What is important is to ensure that current levels of training continue so that there is full familiarity and compliance with the e-SISTAFE procedures across the ministries and provincial departments.

158. The development and implementation of these comprehensive systems of control has also generated an important opportunity for government and its partners to bring externally financed projects which are currently off-budget onto the CUT and into the e-SISTAFE system. Apart

from improving the comprehensiveness of budget coverage, this would also hold important advantages in terms of the reduction of transaction costs, allowing sector ministries to apply one set of controls (the e-SISTAFE controls) to the full range of investment activities.

Indicator	Dimension	Assessment 2004		Assessment 2006	
PI – 21: Effectiveness of Internal Audit	(i) Coverage and quality of internal audit function	B	C+	B	B
	(ii) Frequency and distribution of reports	C		B	
	(iii) Extent of management response to internal audit findings	C		B	

2006 Assessment

159. The *Inspecção Geral de Finanças (IGF)* undertakes annual internal audits within the majority of the agencies of the central government, in line with its annual activity plan. This is compiled in the light of the relative importance in revenue and/ or expenditure terms of the respective agencies and the control risk which they or the specific functions inspected are seen to represent, whilst at the same time complying with the legal requirement that internal audit functions should have national coverage and should include all administrative levels of government. Inspections are conducted in line with the relevant international standards and we were informed that the majority of these focus on systemic issues, rather than simple compliance questions. (An analysis of a small random sample of reports confirmed this¹⁵.) In 2006, the coverage of audit activities represented 57% of the total of potentially auditable expenditures, meriting a “B” score for this dimension of the indicator.

160. In 2006, 102 audit reports were prepared – 49% of the 208 originally planned. This was nevertheless a rate of execution of approximately double that of the previous year (53 internal audit reports submitted). Of these 102 reports, 76 corresponded to audit processes initiated in 2005. However, although only 26 new audits were fully completed in 2006, the vast majority of planned new audits were initiated (123 out of 126) in addition to 7 wholly new audits requested by higher authorities. At the close of the year, a substantial number of audits were in their reporting phases (with draft or final reports under preparation.) Thus, statistics suggest significant improvements in the productivity of IGF and the evidence shows that this was not the result of

¹⁵ In addition, IGF's first performance audits were conducted during 2006, for the water and justice sectors respectively. The lack of good performance information at the sector level is a major hindrance to such audits. We would nevertheless judge that the final outputs brought considerable value added.

compromising geographical coverage: 22 districts and 33 municipalities were audited - 32% of this target group. Notwithstanding these substantive improvements, IGF continues to have difficulties fulfilling its full programme of work, as a result of continued capacity constraints – which are being steadily addressed but remain serious. As a result, the submission of audit reports is not yet able to adhere to a fixed schedule and, as such scoring against this dimension merits a “B” rather than an “A”.

161. In terms of their distribution, IGF’s audit reports are systematically distributed to the audited institution itself and to the Minister of Finance. The legislation currently in force does not require internal audit reports to be submitted to the *Tribunal Administrativo*. However, IGF provide TA with their quarterly progress reports on their work programme, which includes a full listing of audits completed and ongoing. From this, TA maintain a comprehensive list of IGF’s audits and request any internal audit report that they see as relevant to their programme of external audit.

162. Our interviews with the province of Maputo and with the ministries of education and health, all of which had recently received audit reports from IGF, suggested that there is a general acceptance on the part of the audited bodies of the findings of IGF and a willingness to implement their recommendations. In 2006, IGF completed a formal monitoring exercise to examine the extent and timeliness of the implementation of their recommendations. 200 recommendations were examined across a variety of institutions and the report confirmed that some 70 % of these had been adopted, in the sense that either they had been implemented in full or significant relevant measures had been undertaken in response to the recommendations. On this basis, we judge that ‘prompt and comprehensive action is taken by many managers’ in response to internal audit reports, and therefore accord a “B” to this dimension of the scoring.

Comparison of 2004 & 2006

163. There were significant improvements in performance against this indicator over 2004 to 2006. These resulted from: (i) the increase in the number of budget entities audited, (ii) the increased attention to systemic issues, notably through the development of a performance auditing capability, (iii) improved liaison with the *Tribunal Administrativo*, allowing for more systematic use of IGF’s reports to support external audit, and (iv) more effective follow-up over the implementation of internal audit recommendations. These actions have all been implemented in the context of IGF’s ongoing strategic development plan.

Trends in 2007

164. The strategic development plan continues under implementation and with this, there has been a steady build-up of capabilities. Nevertheless, capacity remains a constraint and, given this fact there is a need to manage carefully the balance between the coverage of internal audit and its quality – in terms of the extent to which IA addresses the systemic issues of real significance and the extent to which prompt implementation of recommendations take place. Recent years have

seen important improvements on both dimensions. Yet, our judgement is that the current level of coverage is probably appropriate, given the organisational/ capacity context, and that over 2008 and 2009, the accent should be predominantly on quality.

4.6 Accounting, recording and reporting

Indicator	Dimension	2004 Assessment		2006 Assessment	
PI – 22: Timeless and regularity of accounts reconciliation	(i) Regularity of bank reconciliations.	B	B	B	B
	(ii) Regularity of reconciliation and clearance of suspense accounts and advances	B		B	

2006 Assessment

165. Regular bank reconciliations for all Treasury managed bank accounts – including both the CUT and the *Contas Subsidiaries*, take place monthly. The CUT is reconciled daily. Although its coverage has increased steadily over 2005 and 2006, there continue to be several central government bank accounts which are not managed by the Treasury – in particular there exist many off-budget project accounts and several autonomous (or semi-autonomous) government agencies that have separate bank accounts. The institutions responsible for these accounts are required to submit bank reconciliations on a monthly basis to DNCP but this requirement is not met on a comprehensive and consistent basis. Thus, monthly reconciliation is possible only for *Treasury-managed* bank accounts, rather than all central government bank accounts: a “B” score is therefore accorded to this dimension of the indicator.

166. Advances are limited to those made to the subordinate budget entities (UGBs) and are accounted for using the e-SISTAFE system, which requires monthly acquittal of advances. The accounting system has a procedure for the creation of suspense accounts, in which account can be kept of unacquitted advances or other expenditures where irregularities appear. In many cases, amounts registered in these suspense accounts are deducted from the subsequent monthly transfer, creating a strong incentive for a timely and complete reconciliation. There is no significant build-up of suspense accounts pending reconciliation and there is a formal procedure for these to be cleared at end of year. Both because of the reduced use of budget execution through advance of funds and because the accounting process is now fully computerised through e-SISTAFE, the clearance of suspense accounts for 2006 was completed within four weeks of the end of the year, meriting a “B” score against this dimension of the indicator.

Comparison of 2004 & 2006

167. The score against this indicator remained a “B”. Improvement would require a) an expansion in the coverage of the monthly reconciliation process to cover all central government accounts

rather than just Treasury-managed accounts, and/ or b) a shift from an annual to a quarterly process of clearing outstanding suspense accounts. Despite the lack of a change in the score, the team noted significant improvements as a consequence of the improved efficiency in the operation of the system for clearance of suspense accounts and outstanding advances at year end. This was a direct result of the computerisation of the accounting system through e-SISTAFE.

Trends in 2007

168. During 2007, the percentage of transactions undertaken through direct execution increased significantly, especially after September when the use of direct execution was made compulsory for all UGEs. In parallel, there has been a reduction in the number of active bank accounts held by the central government¹⁶. The combination of these factors has served to increase the relative significance of the CUT and to simplify the process of bank reconciliation.

Indicator	Dimension	2004 Assessment	2006 Assessment
PI – 23: Availability of information resources received by service delivery units	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 (primary schools and primary health clinics), irrespective of which level of government is responsible for the operation and funding of those units.	C	D

2006 Assessment

169. The information available on resources received by front-line service delivery units is quite limited within the accounting system itself. This is due to the fact that these units (predominantly primary schools and health posts) are not budget holders within the State Budget and as such do not constitute costs centres in an accounting sense. More disaggregated accounts are kept at the provincial and district levels but this more detailed information is not available centrally through e-SISTAFE.

170. In the meantime, there was a substantial Expenditure Tracking & Service Delivery Survey (ETSDS – also known as a PETS: Public Expenditure Tracking Survey) undertaken in 2002/ 03, covering the primary health sector. This analysed the level of authorised expenditures in relation to approved budgets in a representative sample of provincial and district departments. Unfortunately, no further survey of this kind was repeated in 2004, 2005 or 2006, nor were there

¹⁶ The number of bank accounts registered within the e-SISTAFE system rose by 14 % in 2006, reaching a total of 5,686 accounts. During 2007, DNT introduced arrangements to compel commercial banks to merge all their central government accounts within a series of consolidated CUT sub-accounts held within each commercial bank. These arrangements included dispositions to close central government accounts if there were no movement on the account for 60 days or more.

alternative initiatives undertaken to collect expenditure information from front-line service delivery units. Accordingly, a “D” is accorded to this indicator.

Comparison of 2004 & 2006

171. As the PETS of 2002/03 was not repeated in subsequent years, the score against this indicator has fallen. Nor did it prove possible to develop administrative methods of centralising the information available on resources received by front-line service delivery units.

172. Over the last three years, the focus of PFM reforms both by Government and its Development Partners has been at the aggregate level, in line with the priorities defined for the progressive introduction of the e-SISTAFE system. With the overall framework and systems for good financial management now more firmly in place, it would be appropriate to dedicate attention to the operation of PFM systems at the district and local levels.

Trends in 2007

173. During 2007, preparations began for the implementation of a “PETS” survey for the education sector, which should take place during 2008. We believe this is a positive initiative, which ought to be established as a more routine process, taking place every two or three years, until regular administrative systems are able to make information on ‘front-line’ spending available centrally. Thus, we would recommend that plans should be made for a further PETS in 2010, perhaps focusing again on the primary health sector.

Indicator	Dimension	2004 Assessment		2006 Assessment	
PI – 24: Quality & timeliness of in-year budget reports	(i) Scope of reports in terms of coverage and compatibility with budget estimates	C	C+	C	C+
	(ii) Timeliness of the issue of reports	B		B	
	(iii) Quality of information	C		B	

2006 Assessment

174. The standard data included in Quarterly Budget Execution Reports (REO – *Relatório de Execução Orçamental*) are comprehensive, covering all of central government, including deconcentrated departments at the provincial and district level. They are also compatible with the budget estimates, allowing direct comparisons to the budgetary out-turns in the same period of the previous year. The REOs do not however show commitments (*cabimentações*), only payments (*despesa paga*) and expenditures pending payment (*despesa liquidada e não paga*). Moreover, there continue to be gaps in capturing expenditure information on externally financed projects which

are on-budget but not 'on-CUT'. For such projects, DNCP relies on the receipt of separate expenditure reports (usually transmitted via the Director of Administration and Finance of the respective ministry) and these are not always submitted in a timely manner, using a format compatible with the national accounting system. Due to these gaps in coverage, this dimension of the indicator is accorded a "C".

175. A further weakness of the REOs is that they do not consistently report on both the original approved budget and the revised budget, which takes account of virements and budgetary reallocations made during the year. For example, the REOs from the first three quarters of 2006 did not include information on both the original and revised budgets – given that Mozambique has quite a high level of within-year virements and re-allocations, this is a significant gap, although of course it does not undermine the ability to track expenditure or to compare it against the expenditures of the equivalent period of the previous year. The fourth quarter REO of 2006 did include comprehensive information on the original and revised budgets as well as expenditure out-turns. We would recommend that this should be the standard presentation format for the 2nd and 3rd quarters as well.
176. The REOs are, as a rule, released 45 days after the end of the relevant quarter, meriting a "B" score on the second dimension of this indicator. They are made available in electronic form by DNCP to all relevant stakeholders and to those who solicit copies. The formal publication of the REOs comes later and is the responsibility of the *Imprensa Nacional*.
177. The accuracy of data and the quality of its presentation have shown steady improvements. To a large extent, this is due to the increased use of the REOs as an element of the dialogue between the Government and the Budget Support agencies, which has led to regular discussion and review of the formats of the REOs with qualitative improvements being consistently introduced as a result. There remain some concerns about accuracy but data issues are normally highlighted within the reports and do not compromise the overall usefulness of the reports. A "B" score is therefore accorded to this dimension.

Comparison of 2004 & 2006

178. The period of 2004 to 2006 has been characterised by small, incremental improvements to the REOs. Although there has been some broadening in the scope of data coverage, these improvements have related primarily to data quality, notably its accuracy and the quality of its presentation. Regarding accuracy, the development and increased use of e-SISTAFE has been the main influence. On the question of presentation, DNCP have made major efforts to simplify and

clarify the presentational format, responding in particular to the feedback from the Budget Support agencies¹⁷.

179. There remain two especially significant issues of coverage which it has not proven possible to address over 2004 to 2006. Until these coverage issues are addressed, the overall score against this indicator will not improve. The first relates to the need to include both commitments and payments within the quarterly reports. This is especially important for tracking of expenditures within year because of the inevitable delays between the moment of commitment and the moment of payment. The second major gap relates to the capture of expenditure data on externally financed projects approved within the State Budget.

Trends in 2007

180. The two most significant developments during 2007 have been the development of the e-SISTAFE system and its increased use, and secondly the development of the ODAMOZ data-base on externally financed projects. The former is already having an impact on the accuracy of data and should also provide the scope for including coverage of commitments as a regular part of the REOs. Over time, one can also foresee the e-SISTAFE system helping to reduce the time required for report analysis and preparation, making it possible for REOs to be issued within 4 rather than 6 weeks of the end of the quarter.
181. The development of the ODAMOZ database, with support from the European Commission, has served to improve the quality of expenditure information available on externally financed projects. DNCP and DNO have started to use this as method of cross-checking the data on project budgets and expenditures received directly from the ministries, departments and agencies. This has clearly had an impact on the accuracy of data on externally financed projects contained within the State Budget and the CGE but its effect on the REOs has been smaller. Accurate quarterly reports require regular and accurate submission of quarterly data and the ODAMOZ is not yet in a position to provide this, relying as it does on the diligence and goodwill of those required to provide quarterly reports rather than on reports generated systematically, as is the case with e-SISTAFE. Moreover, excessive reliance on external sources of information may inadvertently undermine the correct lines of responsibility and reporting on projects. By virtue of their approval within the State Budget, all projects fall under the responsibility of specified government budget holders and it is these budget holders who have the legal reporting responsibilities on such projects. Thus, for both practical reasons and issues of principle, the ODAMOZ is a poor substitute to bringing external projects 'on-CUT' and this must continue to be the main thrust of government's work in this area.

¹⁷ There is a potential danger that the needs of domestic user groups – notably the National Assembly and the sector ministries, may not be adequately attended. DNCP do also interact with these users but in a less formal and structured way and they tend to be rather less vociferous than the Development Partners in expressing their views.

182. A further positive development has been the initiation of the DNCP web-site, which is ongoing. We would strongly encourage DNCP to find ways of placing the REOs and the CGE systematically on this site in down-loadable form.

Indicator	Dimension	Assessment 2004		Assessment 2006	
PI – 25: Quality and timeliness of annual financial statements	(i) Completeness of the financial statements	C	C+	C	C+
	(ii) Timeliness of submission of the financial statements	A		A	
	(iii) Accounting standards used	C		C	

2006 Assessment

183. The *Conta Geral do Estado* (CGE) presents the consolidated year-end financial statement for central government. It includes full information on revenues and expenditures but only limited information on assets and liabilities, namely a statement of the debt stock and an inventory of government property. Most significantly, the CGE does not publish an annual Balance Statement for government, as would be recommended by best international practice and as explicitly required by the SISTAFE law. It is for this reason that a “C” score is accorded to this dimension.

184. In line with statutory requirements, on 31st May 2006 the Government tabled before the *Tribunal Administrativo* the CGE for 2005. The TA, in turn tabled the CGE and its own report and opinion on the CGE (*relatório e parecer*) before the National Assembly by 30th, November 2006. This timetable has now been followed since 2004, in conformity with best international practice and with the requirements for an “A” score against the second dimension of the indicator.

185. The documentation for the CGE has been presented in a consistent manner over time, facilitating annual comparisons. It does not include an explicit mention of the accounting standards followed but it does state that it is prepared in conformity with the SISTAFE law, which in turn specifies the required criteria for accounting records and financial statements. These call for double-entry accounting, cash-based budgeting for revenues and commitment-based accounting for expenses. It also specifies the required accounting principles of consistency, materiality, comparability and timeliness, all of which are consistent with IPSAS international standards. If these requirements could be developed into a formally endorsed statement of national accounting standards, it would merit a “B” score against this dimension. There is also a need to improve the quality with which accounting standards are applied. For example the report of the *Tribunal Administrativo* on the 2005 CGE makes reference to a number of discrepancies found in the data in different tables and to weaknesses in the quality of supporting information. IPSAS equivalent national standards need to be comprehensively applied for all financial statements, in order to merit an “A” score.

Comparison of 2004 & 2006

186. The 2005 CGE (tabled in 2006) is a significantly improved document by comparison with the earlier CGEs, principally as a result of the introduction of a structure and presentation fulfilling the requirements of the SISTAFE law and of the corresponding accounting principles. What is now required is for these accounting principles to be formalised as a set of national standards and to be consistently applied in all financial statements.
187. Relative to the 2003 and 2004 CGEs, the 2005 CGE includes more information on assets and liabilities but still falls short of presenting a formal Balance Sheet for central government.
188. The change likely to be of most interest to budget analysts is the inclusion of the district as a separate budget category (rather than a component of provincial expenditure). This is important as districts account for 63 % of recurrent expenditures and 12 % of investment expenditures.

Trends in 2007

189. The introduction of e-SISTAFE is likely to have a significant positive effect on the accuracy and consistency of the data included in the CGE, removing, for example, some of the discrepancies noted by the TA in relation to the 2005 CGE. The team were able to verify these improvements in the 2006 CGE, to which they were given early access prior to its review by the National Assembly. However, although e-SISTAFE can facilitate reporting, specific efforts will need to be made by DNCP to develop a regular annual Balance Sheet to include within the CGE. Strengthening of the analytical and reporting skills within DNCP and DNO will be needed to make this possible on a sustainable basis: greater attention needs to be given by government and its Development Partners to the capacity building needs within these departments.

4.7 External scrutiny and Audit

Indicator	Dimension	Assessment 2004		Assessment 2006	
PI – 26: Scope, nature and follow-up of external audit	(i) Scope/nature of audit performed (incl. adherence to auditing standards)	D	D+	D	D+
	(ii) Timeliness of submission of audit reports to legislature	C		B	
	(iii) Evidence of follow up on audit recommendations	B (C)		C	

2006 Assessment

190. The PEFA team must emphasise that they were unfortunately not able to meet directly with staff of the *Tribunal Administrativo*. Therefore, the scoring for this indicator is based on an analysis of

the published outputs of the TA, notably the reports and opinions on the CGEs for 2004 and 2005 and on discussions with the Parliamentary Committee on Finance and Planning, with IGF and with Development Partners involved in the provision of capacity building support to the TA. In addition, brief written comments were received from TA on the draft report, accepting the analysis of the team.

191. The *Tribunal Administrativo* is the supreme audit institution of Mozambique. It undertakes the external audits of the individual accounts of government entities and of the CGE as a whole. In addition, it has a judicial status, acting as the *Tribunal de Contas* in reviewing and reaching final decisions over the audits of individual departments, as well as imposing fines and/ or recommending criminal investigations, where relevant. Thus, in its capacity as a *Tribunal de Contas*, the TA performs most of the functions performed by a Parliamentary Public Accounts Committee in a Westminster-based system. Only the audit of the CGE and the related audit opinion (*parecer*) of the TA is submitted to the National Assembly, providing the basis for their review and approval of the public accounts (CGE).
192. Because the CGE is a consolidated financial statement for the whole of central government, the TA's audit of this account cannot address detailed management questions on the use of funds and on procurement processes. The more detailed audit of transactions and of the functioning of internal control and procurement systems is undertaken through the ministry by ministry audits. For the moment this covers financial audit and does not yet include value for money auditing. Due to capacity constraints the TA cannot cover every agency annually. Indeed, the IMF's Fiscal ROSC of 2007 estimated coverage of 25 % of auditable entities during 2006. On the basis of this estimate, implicitly accepted by the TA through their written acceptance of the PEFA team's conclusions, we judge that the central government entities covered by external audit in 2006 represented less than 50 % of total expenditure, giving a "D" score against this dimension of the indicator.
193. Following the requirements of the SISTAFE law, the CGE is audited annually between 31 May and 30 November of each year, so that an audit report reaches the National Assembly within 11 months of the end of the period covered, and within 6 months of receipt of the financial statement (CGE) by TA. This requirement has been fulfilled since 2004, and merits a "B" score on this dimension of the indicator.
194. Regarding the response to audit findings, the particularities of the Mozambican system hold some advantages, in that the TA is itself empowered to impose fines or to recommend corrective actions (including criminal proceedings) as a result of its departmental audits. We were advised that future audits by IGF and by TA specifically verify the implementation of such recommendations but we were not advised of other methods of follow-up nor given access to information on follow-up to individual entity audits. In terms of the audit of the CGE, it is the

Comissão Parlamentar who recommend follow-up measures and a report on their implementation is included in the TA's audit report (parecer) for the following year's CGE. There is thus a formal response and follow-up to the TA's report and opinion on the CGE but in the absence of evidence of follow-up to audits of individual entities, a "C" score is accorded to this dimension¹⁸.

Comparison of 2004 & 2006 | Trends in 2007

195. A comparison of the audit opinions on the CGE for 2006 and 2005 with the earlier ones shows a significant improvement in the comprehensiveness and quality of the analysis. This is partly due to improvements in the quality of the CGE but also seems to reflect a strengthening of the capabilities of the TA itself. We were also advised that the TA's audit coverage of central government entities had increased but in the absence of evidence that it exceeds a 50% coverage, the scores for 2006 remain unchanged from 2004.

Indicator	Dimension	2004 Assessment		2006 Assessment	
PI – 27: Legislative scrutiny of the annual budget law	(i) Scope of Legislature's scrutiny	A	B+	A	B+
	(ii) Extent to which the legislature's procedures are well-established and respected.	A		A	
	(iii) Adequacy of time for the legislature to provide a response to budget proposals.	A		A	
	(iv) Rules for in-year amendments to the budget without ex-ante approval by the Legislature.	B		B	

2006 Assessment

196. Legislative scrutiny of the annual budget law covers the annual plan (PES), fiscal policies, the medium term fiscal framework and medium term priorities (presented in the CFMP and the *fundamentos of the Budget*) as well as details of expenditure and revenue (in the draft OE). The procedures adopted for the review are firmly established and respected. The Ministry of Finance submits the annual budget proposals to the National Assembly by 30th, September each year. The draft budget is then distributed to the six Parliamentary Committees, covering discrete sectoral areas, and to the *Comissão Parlamentar do Plano e Finanças*, which in addition to reviewing the proposed budget of the Ministry of Finance, plays an overall coordination role across the committees. The Committees have two months to review proposals, develop comments and negotiate relevant amendments with the Minister of Finance and his/her staff. In

¹⁸ We understand that the "B" score accorded in 2004 was based only on a judgement about follow-up to the report and opinion on the CGE. A more correct scoring would have been a "C". There is therefore no substantive decline in the scoring against this dimension.

early December, the budget is then presented to the National Assembly for their consideration and approval. It is accompanied by a set of formal comments (*um parecer*) on the budget proposals by the *Comissão Parlamentar do Plano e Finanças*. The process of scrutiny of budget proposals by the Legislature is thus well developed and fully consistent with international good practice norms, with regard to scope, procedures and the time allowed for scrutiny, meriting “A” scores against each of these dimensions.

197. There are clear rules for in-year budget amendments by the Executive contained within the SISTAFE law and its related regulations. These do not allow the Executive to increase the overall level of expenditure, to reallocate funds between budget entities or to alter the scope and nature of tax instruments without prior approval of the Legislature. These rules are generally respected. However, the rules allow for virements within a budget entity and also, more significantly, allow for the contingency fund to be re-allocated without prior approval of the Legislature¹⁹. Moreover, there is no requirement to report back to the Assembly during the year on the scope and nature of these reallocations. Thus, the rules do allow for extensive administrative reallocations. This is justified in part by the fact that with the Legislature meeting only twice during the year (for 45 day sessions), some degree of flexibility in budget execution is required for the Executive. Nevertheless, this factor limits the score for this dimension of the indicator to a “B” rather than an “A”.

Comparison of 2004 & 2006 Trends in 2007

198. There has been no change in the scoring of this indicator between 2004 and 2006. Further improvement would require attention to the scope of the administrative reallocations which the Executive is permitted, as has been recommended by the *Tribunal Administrativo*.

199. While this indicator is primarily concerned with the scope and the institutional/ procedural basis of Legislative scrutiny, it is clear that there are also relatively simple changes that could be made to improve the quality of legislative scrutiny. For example, the *Comissão Parlamentar do Plano e Finanças* pointed out to the PEFA team that while the two month period for scrutiny of the Budget proposals may be consistent with international best practice, the fact that other legislative business is being conducted simultaneously significantly reduces the actual time which may be dedicated to this process. Reorganisation of the legislative calendar and/ or a lengthening of the parliamentary sessions would thus help to improve the quality of scrutiny. Similarly, an enhancement of the (currently minimal) secretarial support provided to the committees could also make a difference, as could provision of technical support. The Committee also stressed their strong support for the introduction of a programme classification within the Budget, which would considerably enhance the level of information conveyed within budgetary estimates.

¹⁹ The report and opinion of the TA on the 2006 CGE draws attention to this issue and identifies this as a deficiency within the SISTAFE law and regulations.

Indicator	Dimension	Assessment 2004		Assessment 2006	
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)	A	C+	B	C+
	(ii) Extent of hearings on key findings undertaken by the Legislature	C		C	
	(iii) Issuance of recommended actions by the Legislature and implementation by the Executive.	B		B	

2006 Assessment

200. In two of the last three years (2006 and 2007), legislative scrutiny of the external audit report has taken place in the first parliamentary session of the year, beginning in late March or early April. With the audit report on the CGE being tabled at end November, this has meant that legislative scrutiny has been concluded 4-5 months after its receipt by the Legislature, meriting a “B” score against this dimension of the indicator. The review of the CGE and of the report and comment of the TA is led by the *Comissão Parlamentar do Plano e Finanças*, the same committee which leads the legislative scrutiny of the budget. In theory, it is hoped that this committee will complete both tasks before the close of the parliamentary session in December but it has not proven possible to address both tasks effectively, whilst also attending to the legislative demands of the parliamentary session.

201. Due to the current legal framework for the external audit process, scrutiny by the Legislature is limited only to the audit of the CGE, which provides the National Assembly with a highly aggregate picture of budget execution. In-depth hearings on key findings do take place but, given the scope of the audit of the CGE, these are mainly with Ministry of Finance officials. A more substantial involvement of the National Assembly in reviewing departmental audits and holding hearings with a wider range of officials will require a change in the legal framework for external audit in Mozambique. Nevertheless, it is this factor which pulls down the overall score against this indicator, earning a “C” score for the coverage of hearings by the Legislature and hence an overall score of “C+”.

202. The Legislature does recommend actions to the Executive, as a result of its review of the CGE and the TA’s report and opinion. There is evidence that some of these are implemented and there is a procedure for assessing follow-up, when the CGE of the subsequent year is analysed. The type of corrective actions recommended usually refer to actions by the Ministry of Finance and are often system-wide in nature.

Comparison of 2004 & 2006

203. This indicator had the same overall score in 2004 and 2006. There was, however, a slight decline in the timeliness of examination by the Legislature of the CGE and TA's report and opinion. This appears to be simply a result of the increased burden of work upon the *Comissão Parlamentar do Plano e Finanças*, which in addition to legislative scrutiny of the budget proposals, the final accounts and the corresponding audit also have a substantial burden of legislative work to address. This is reported to have increased steadily in recent years and further underlines the need to improve administrative and technical support to the *Comissão Parlamentar*.

Trends in 2007

204. Improving performance against this indicator will require a broadening, through legislative reform, of the role of the Legislature in scrutinising the external audit reports of the *Tribunal Administrativo*. At present, this does not fall within its competences, being performed by the *Tribunal Administrativo* in its function as a *Tribunal da Contas*. Such a fundamental legislative change would be justified only if there was a convincing case that it would lead to stronger follow-up of external audit recommendations and more effective corrective actions by the Executive. We are not aware of this issue having been analysed in any detail.

205. In the meantime, the key problem in the medium term is to strengthen audit capacity so as to bring the annual coverage of budgetary entities closer to the 75 %, commonly accepted as international best practice.

4.8 Donor Practices

Indicator	Dimension	Assessment 2004		Assessment 2006	
D-I: Predictability of Direct Support Budget	(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.	A	C+	A	A
	(ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates).	C		A	

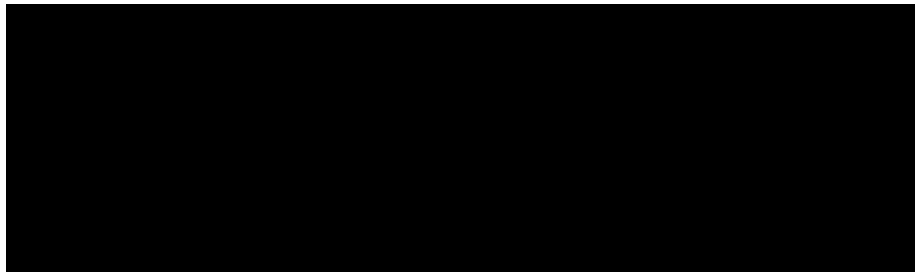
2006 Assessment

206. Arrangements have been established between the Government and the Development Agencies providing General Budget Support, in which the latter provide Government with projections of their anticipated GBS disbursements for the subsequent year by the end of July of each year. This

is some 2.5 months after the conclusion of the joint annual review of budget support and six weeks prior to the submission of draft budget estimates to the National Assembly.

207. The table below shows a comparison of overall annual disbursements against these projections for the years 2004, 2005 and 2006. In 2004, GBS disbursements were only 0.6 % below the projection; in 2005, they fell short by 10 % while in 2006, they exceeded projections by 23 %. Thus, in only one of the last three years have GBS disbursements fallen short of forecasts by more than 5 %, meriting an “A” score against this dimension.
208. Timeliness of GBS disbursements in-year was also relatively close to the projections provided to DNT by the GBS agencies. The third column of the table below shows a comparison of the amounts actually disbursed in each quarter relative to the projected disbursements by quarter. The preparation of the table follows the methodology recommended by the PEFA Secretariat and also allows for the attribution of a higher weighting to delays in the earlier quarters of the year. It shows minimal disbursement delays in both 2004 and 2006, and significant delays in only one of the three years, meriting an “A” score against this indicator.

Predictability of Direct budget Support 2004, 2005 & 2006



Source: Governo de Moçambique, DNT

Comparison of 2004 & 2006

209. There was a significant improvement in the predictability of GBS disbursements over the period, notably due to the increased timeliness of disbursements in-year. This was the result of an increased awareness amongst the GBS agencies over the importance of this issue and the consequent development of more systematic routines for providing disbursement projections and for managing the actual disbursement processes.

Trends in 2007

210. These new routines seem now to be well established and performance in the first three quarters of 2007 was also good with disbursements already exceeding the aggregate projections for the year by 18 % and no quarter by quarter delays having been recorded.

Indicator	Dimension	2004 Assessment		2006 Assessment	
D-2: Financial information provided by donors for budgeting and reporting on projects and programmes	(i) Completeness and timeliness of budget estimates by donors for project support	C	D+	C	D+
	(ii) Frequency and coverage of reporting by donors on actual donor flows for project support	D		D	

2006 Assessment

211. Budget and expenditure data for externally financed projects and sector programmes is an area for which limited comprehensive and compatible information is available. There is a particular problem in obtaining information at a time within the budget cycle and in a format, which allows for its use within the State Budget (OE), the quarterly budget execution reports (REOs) and the annual financial statement (CGE).

212. In relation to the Budget, there are two main sources of information: firstly, donors are asked directly to provide information on externally-financed projects by DIC (Directorate for Investment and Cooperation, Ministry of Planning and Development), and by DNO. In addition, as part of the budget preparation process, all ministries and departments are required to complete project sheets for inclusion in the Plano Económico e Social (PES), and in the State Budget. These project sheets should be completed by project managers and then consolidated by the DAF within each ministry. In practice, many project managers – and in particular those managing off-budget projects – do not respect this reporting requirement and the information received through this formal channel is very partial. DNO therefore tend to draw on the information submitted directly by donor agencies in order to decide which projects ought to be budgeted within the OE and at what levels.

213. Over 2005 and 2006, and 2007, the main source of information has been the ODAMOZ data-base, which is a consolidated data-base of externally financed projects, originally initiated by the European Commission but now managed on behalf of all donors. Its coverage of externally financed projects has been growing steadily and is now said to be relatively comprehensive but the format in which data is presented does not follow the Government's budget classification system. Thus, although the number of projects included in the budget has increased as a result of the additional information generated through ODAMOZ, the inability to impose the use of the Government's budget classification system means that this dimension of the indicator continues to score a "C".

214. In relation to expenditure information, it is clear that ODAMOZ has increased the overall availability of expenditure information on projects. The system as a whole is easy to use and relatively accessible and it is clear that most development agencies have made real efforts to

provide project expenditure data to be entered into the system. We were advised by DNCP that the availability of expenditure information from ODAMOZ had facilitated improvements in the coverage of externally financed expenditures within the CGE. However, what is required is for expenditure data to be made available to DNCP so that it can be incorporated into the REOs. This has not yet proven possible: when we examined the available data on the ODAMOZ system during the fourth quarter of 2007, for the majority of projects only expenditure data up to the end of the 1st Quarter 2007 was available. In short, ODAMOZ is not yet capable of supplying project expenditure data within two months of the end of the quarter for even 50 % of externally financed projects, as would be required to obtain a “C” score against this dimension of the indicator. It thus scores “D” as in 2004.

Comparison of 2004 & 2006 | Trends in 2007

215. There has been no change in the score against this indicator despite a substantial improvement in the availability of information on the budgets and expenditures of externally financed projects. This has been the consequence of the extensive investment of time and effort in the development of the ODAMOZ data-base. The resulting information has been helpful in improving the coverage of the State budget and of the CGE in relation to externally financed projects. It has not, however, been sufficient to improve the quality of expenditure reporting within year. This would require expenditure data on projects to be systematically available to DNCP within the time frame necessary to generate the quarterly budget reports (REOs). In order to meet the statutory requirements for these to be made available within 45 days of the end of the quarter, project data would in practice need to be available within a month. It is very difficult to conceive of this being achieved, systematically and for the majority of projects, utilising an information system which is external to the main accounting structure. Ideally, all project disbursements would be managed through the CUT, utilising direct execution methods, in which case accounting records would be automatically generated through e-SISTAFE. Alternatively, project managers with the support of their respective DAFs should enter their expenditure data into the e-SISTAFE accounting system on a monthly or, at least, quarterly basis.

216. UTRAFE advised us that they are investigating the possibility of generating an automatic link between the MEO module within e-SISTAFE (*Módulo de Execução Orçamental*) and the ODAMOZ. If this was a step towards the direct incorporation of project accounting data through the MEO into e-SISTAFE, then this would be a positive development, although still a distinct second best to the option of bringing externally financed projects on-CUT, which, we reiterate, ought to be the main strategy for Government and its Development Partners in this area.

Indicator	Dimension	Assessment 2004	Assessment 2006
D-3: Proportion of aid	Overall proportion of aid funds to	D	D

Indicator	Dimension	Assessment 2004	Assessment 2006
that is managed by use of national procedures	central government that are managed through national procedures		

2006 Assessment

217. The use of national procedures in managing donor-financed activities, in areas such as procurement, disbursement/ accounting, reporting and audit, is at the moment restricted to direct budget support (approximately 20% of aid flows to central government). Some donor-financed projects use national procedures for disbursement and accounting but not for other aspects of management. Sector programmes, which are gradually shifting towards the use of national systems, are still not fully aligned, mostly due to concerns regarding procurement practices and due to audit requirements which can only be met through externally commissioned audits by the private sector. Thus, overall, substantially less than 50 % of aid funds to central government are managed through national procedures, giving a “D” score.

Comparison of 2004 & 2006 e Trends in 2007

218. There was no change in the scoring against this indicator between 2004 and 2006. Nevertheless, there are indications of an increase in the relative proportion of aid funds which are managed through national procedures. This is partly due to the increase in the relative proportion of aid channelled through budget support but also due to increasing use of aspects of national procedures by projects and sector programmes financed through ‘common basket fund’ arrangements. We were advised that data from the most recent surveys of the application of the Paris Declaration principles demonstrated these improvements, although the aggregate percentage of aid funds managed through national procedures still remains substantially below 50%.

Annex I: Summary of PEFA 2004 & 2006 by Performance Indicator

Indicator	Dimension	2004 Assessment		2006 Assessment	
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 and externally financed project expenditure)	A	(B)	B	
PI – 2: Composition of expenditure out-turn compared to original approved budget	(i) Extent to which variance in primary expenditure composition exceeded overall deviation in primary expenditure (as defined in PI-1) during the last three years	B		C	
PI – 3: Aggregate revenue out-turn compared to original approved budget.	(i) Actual domestic revenue collection compared to domestic revenue estimates in the original, approved budget	B		C	
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 the stock.	A	D+	A	B+
	(ii) Availability of data for monitoring the stock of expenditure payment arrears.	D		B	
PI – 5: Classification of the Budget	The classification system used for formulation, execution and reporting of the central government's budget	B		B	
PI – 6: Comprehensiveness of information included in budget documentation	Typology of information in the budget documentation most recently issued by the central government	B		B	
PI – 7: Extent of unreported government operations	(i) The level of extra-budgetary expenditure (other than donor-funded projects) which is unreported i.e. not included in fiscal reports.	B	C+	B	C+
	(ii) Income/ expenditure information on donor-funded projects which is included in fiscal reports	(C)		(C)	

Indicator	Dimension	2004 Assessment		2006 Assessment	
PI – 8: Transparency of inter-fiscal governmental operations	(i) Transparent and rules based systems for the horizontal allocation among SN governments of unconditional and conditional transfers from central government.	A	C+	A	C+
	(ii) Timeliness of reliable information to SN governments on their allocations from central government for the coming year.	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		D	
PI – 9: Oversight of aggregate fiscal risk from other public sector entities	(i) Extent of central government monitoring of autonomous government agencies and public enterprises	C	D+	C	D+
	(ii) Extent of central government monitoring of SN governments' fiscal position	D		D	
PI – 10: Public access to key fiscal information	Typology of fiscal information which is publicly available	C		B	
PI – 11: Orderliness and participation in the annual budget process	(i) Existence of and adherence to a fixed budget calendar.	A	B	A	B+
	(ii) Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent).	C		A	
	(iii) Timely budget approval by the legislature or similarly mandated body (within the last three years).	C		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+
	(ii) Scope and frequency of debt sustainability analysis	A		A	
	(iii) Existence of sector strategies	C		C	

Indicator	Dimension	2004 Assessment		2006 Assessment	
	with multi-year costing of recurrent and investment expenditure				
	(iv) Linkages between investment budgets and forward expenditure estimates	C		D	
PI – 13: Transparency of Taxpayer obligations and liabilities	(i) Clarity and comprehensiveness of tax liabilities	B	B	B	B+
	(ii) Taxpayer access to information on tax liabilities and administrative procedures	A		A	
	(iii) Existence and functioning of a tax appeal mechanism	C		B	
PI – 14: Effectiveness of measures for taxpayer registration and tax assessment	(i) Controls in taxpayer registration system	B	C+	B	B
	(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	C		B	
	(iii) Planning and monitoring of tax audit and fraud investigation programmes	C		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+	D	D+
	(ii) Effectiveness of transfer of revenue collections to the Treasury by the revenue administration.	B		B	
	(iii) Frequency of complete accounts reconciliation between assessments, collections, arrears and receipts by Treasury.	B		A	
PI – 16: Predictability in the availability of funds for commitment of expenditures	(i) Extent to which cash flows are forecast and monitored.	A	D+	A	C+
	(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment	C		B	
	(iii) Frequency and transparency	D		C	

Indicator	Dimension	2004 Assessment		2006 Assessment	
	of adjustments to budget allocations, which are decided above the level of management of MDAs				
PI – 17: Recording and management of cash and balances, debt and guarantees	(i) Quality of debt data recording and reporting	B	B+	A	A
	(ii) Extent of consolidation of the government's cash balances.	B		B	
	(iii) Systems for contracting loans and issuance of guarantees.	A		A	
PI – 18: Effectiveness of payroll controls	(i) Degree of integration and reconciliation between personnel records and payroll data	D	D+	B	B
	(ii) Timeliness of changes to personnel records and the payroll	D		B	
	(iii) Internal controls of changes to personnel records and the payroll	C		B	
	(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers.	C		B	
PI – 19: Competition, value for money and controls in procurement	(i) Evidence on the use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases (percentage of the number of contract awards that are above the threshold)	C	C	B	B
	(ii) Extent of justification for use of less competitive procurement methods	C		C	
	(iii) Existence and operation of a procurement complaints mechanism	C		B	
PI – 20: Effectiveness of internal controls for non-salary expenditure	(i) Effectiveness of expenditure commitment controls	D	D+	B	B
	(ii) Comprehensiveness, relevance and understanding of other internal control rules/procedures	C		B	
	(iii) Degree of compliance with rules for processing and	C		B	

Indicator	Dimension	2004 Assessment		2006 Assessment	
	recording transactions.				
PI – 21: Effectiveness of Internal Audit	(i) Coverage and quality of internal audit function	B	C+	B	B
	(ii) Frequency and distribution of reports	C		B	
	(iii) Extent of management response to internal audit findings	C		B	
PI – 22: Timeless and regularity of accounts reconciliation	(i) Regularity of bank reconciliations.	B	B	B	B
	(ii) Regularity of reconciliation and clearance of suspense accounts and advances	B		B	
PI – 23: Availability of information on resources received by service delivery units	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 (primary schools and primary health clinics), irrespective of which level of government is responsible for the operation and funding of those units.	C		D	
PI – 24: Quality & timeliness of in-year budget reports	(i) Scope of reports in terms of coverage and compatibility with budget estimates	C	C+	C	C+
	(ii) Timeliness of the issue of reports	B		B	
	(iii) Quality of information	C		B	
PI – 25: Quality and timeliness of annual financial statements	(i) Completeness of the financial statements	C	C+	C	C+
	(ii) Timeliness of submission of the financial statements	A		A	
	(iii) Accounting standards used	C		C	
PI – 26: Scope, nature and follow-up of external audit	(i) Scope/nature of audit performed (incl. adherence to auditing standards)	D	D+	D	D+
	(ii) Timeliness of submission of audit reports to legislature	C		B	

Indicator	Dimension	2004 Assessment		2006 Assessment	
	(iii) Evidence of follow up on audit recommendations	B (C)		C	
PI – 27: Legislative scrutiny of the annual budget law	(i) Scope of Legislature's scrutiny	A	B+	A	B+
	(ii) Extent to which the legislature's procedures are well-established and respected.	A		A	
	(iii) Adequacy of time for the legislature to provide a response to budget proposals.	A		A	
	(iv) Rules for in-year amendments to the budget without ex-ante approval by the Legislature.	B		B	
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)	A	C+	B	C+
	(ii) Extent of hearings on key findings undertaken by the Legislature	C		C	
	(iii) Issuance of recommended actions by the Legislature and implementation by the Executive.	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.	A	C+	A	A
	(ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates).	C		A	
D-2: Financial information provided by donors for budgeting and reporting on projects and programmes	(i) Completeness and timeliness of budget estimates by donors for project support	C	D+	C	D+
	(ii) Frequency and coverage of reporting by donors on actual donor flows for project support	D		D	
D-3: Proportion of aid that is managed by use of national procedures	Overall proportion of aid funds to central government that are managed through national procedures		D		D

Annex II: Sources of information: a) Interviews Undertaken

Name	Position	Organisation
Carlos Jessen Júnior	Coordenador Geral	UTRAFE
Muntaz Adamo	Assistente do Gestor de Projecto	UTRAFE
António S. Cruz	Director da Direcção de Estudos	MPD-DNEAP
Marisa Alves	Técnica de Planificação	MPD-DNP
Fernado Arssona	Vereador para Área de Finanças e Património	CMCM
Deolinda Moiane	Chefe do Gabinete do Presidente do CMCM	CMCM
Xadrequê Ernesto	Técnico Administrativo	CMCM
Virgínia Guta	Técnica de Finanças e Património	CMCM
Vania Jacques	Técnica de Finanças e Património	CMCM
Célia Gonçalves	Directora Adjunta de Planificação	MISAU
Angelina Monjane	Chefe de Planificação	MISAU
Henario Siteo	Director Nacional Adjunto Para Área de Finanças	MISAU
Isaura Muianga	Directora Nacional da Administração e Finanças	MISAU
Marta Frederico Tivane	Chefe de Departamento Financeiro	MISAU
Zacarias Castigo Zindoga	Director Nacional Adjunto para Área de Logística	MISAU
Francisco Langa	Gestor dos Recursos Humanos	MISAU
Gizela Suca	Técnica de Orçamento	DNO
Rogério Nkomo	Director Nacional Adjunto do Orçamento	DNO
Orlando Chaves	Chefe de Departamento do Orçamento	DNO
Jorge Marcelino	Inspector-geral das Finanças	IGF
Pedro Conceição Couto	Vice Ministro do MF	MF
Pena Vasco	Técnico de Contas de OE	DNCP
Virgílio Fernandes	Assessor para Área da Contabilidade Pública	DNCP
Carolina Pessane	Directora Nacional da Contabilidade Pública	DNCP
Amad Hassan	Director Nacional Adjunto da Contabilidade Publica	DNCP
Roberto Marrengula	Técnico de Orçamento	DPPF – Maputo
Gabriel Chongo	Técnico Superior de Administração Pública	DPPF – Maputo
José Joãozinho Bandeira	Técnico de Orçamento	DPPF – Maputo
Titos João Matabele	Director Provincial Adjunto	DPPF – Maputo
Rita Santos Masoto	Técnica de Planificação	DPPF – Maputo
Arminda Pelembe	Técnica Profissional de Administração Publica	DPPF – Maputo
Célia das Dores Chambule	Técnica Profissional de Administração Publica	DPPF – Maputo

Name	Position	Organisation
João Melembe	Técnico de Gestão da CUT	DNT
Natércia de Natividade	Chefe de Departamento da Análise Económica e Jurídica	DNT
Maria Isaltina Lucas	Directora Nacional Adjunta do Tesouro para Área Económica	DNT
Agostinho Uisque	Chefe do Departamento do Registo e Controlo Dívida	DNT
Arginaldo Andrice	Chefe de Departamento de Cooperação e Gestão de Contra Valores	DNT
Amélia Mutemba	Chefe do Departamento de gestão da CUT	DNT
Hermínio Sueia	Director Geral dos Serviços Comuns da AT	AT
Esmeralda Machele	Director Geral Adjunta dos Serviços Comuns da AT	AT
Horácio Simão	Director Geral Adjunto do Gabinete de Planeamento, Estudos e Cooperação Internacional	AT
Mercelo Mazivila	Chefe do Serviço de Contencioso Tributário	AT
José Munhequete	Chefe de Divisão de Verificação dos Processos de Contabilidades das DAFs	AT
Júlio Mazembe	Técnico de Direcção e Normação Tributária	AT
Algy Aly	Gestor das Direcções de Controlo da Cobrança da Autoridade Tributária	AT
Olegário Banze	Chefe de Divisão de Gestão da Dívida Tributária	AT
Erménio Tovela	Chefe de Divisão de Auditoria e Fiscalização Tributária	AT
Margarida Saldanha	Chefe da Divisão dos Cadastros e Contribuintes	AT
Manuel Quinze	Técnico de Divisão de Análise Financeira e Orçamental	AT
Tapú Mamane	Director da Direcção de Serviços de Planeamento Estratégico	AT
Arlindo da Graça	Assessor Tributário	AT
Eusébio Saide	Director Nacional do Património	DNPE
Albertina Furquia	Directora Nacional Adjunta do Património – UFSA	UFSA
Joaquim António Macuacua	Técnico de Procurement	UFSA
Benjamim Uate	Técnico de Procurement	UFSA
Francisco Ribeiro	Chefe de Repartição de Cadastro e Inventário	UFSA
Fernanda Camba	Chefe de Departamento	UFSA
Virgínia de Bom Sucesso Vasco	Directora Nacional Adjunta do Património	DNPE
Sesinando Filipe	Técnico de Procurement	UFSA

Annex III: Sources of information: b) Documents Consulted

Indicator	Document	Source
PI – 1: Aggregate expenditure out-turn compared to original approved budget	OE 2004, 2005, 2006 CGE 2004, 2005, 2006	DNCP
PI – 2: Composition of expenditure out-turn compared to original approved budget	OE 2004, 2005, 2006 CGE 2004, 2005, 2006	DNCP
PI – 3: Aggregate revenue out-turn compared to original approved budget.	OE 2004, 2005, 2006 CGE 2004, 2005, 2006	DNCP
PI – 4: Stock and monitoring of expenditure payment arrears	CGE2004-2005-2006 Anexos a CGE 2004-2005-2006 Relatórios da ATM, DNT e DNCP	DNCP; DNO; DNT; BM
PI – 5: Classification of the Budget	OE 2004-2005,2006, 2007	DNO; DNCP; UTRAFE
PI – 6: Comprehensiveness of information included in budget documentation	Projecto de Lei do OE 2008 (versão apresentada à AR)	AR (CPO) e MdF
PI – 7: Extent of unreported government operations	OE 2004-2005 - 2006; IMF Article IV e ROSC	DNO; DNT; FMI; BAG; ODAMOZ
PI – 8: Transparency of inter-governmental fiscal operations	Lei e regulamento do SISTAFE; Lei do OE + Instruções MdF LOLE e LA; OE 2004,2005,2006 & 2007 (versão electrónica)	UTRAFE; DNO; MAE; UTRESP; WB; PAPs (Decentralisation); CMM; MPD DNO; DNT; CMCM;
PI – 9: Oversight of aggregate fiscal risk from other public sector entities	Lei do SISTAFE; Estudos e relatórios LOLE; LA	DNCP; BM; DNPE; DNP; DNT; IGEPE DNO, MPD
PI – 10: Public access to key fiscal information	Relatório e Parecer sobre a Conta Geral do Estado (2004 e 2005), OE (2004/5/6/7), REO 2005/6/7 (Jan e Março) CGE 2004/5/6 Mapa de Contractos Adjudicados;	Imprensa Nacional, www.ta.gov.mz www.concursospublicos.gov.mz DNCP www.dno.gov.mz
PI – 11: Orderliness and participation in the annual budget process	Boletim da República 2004-2005-2006-2007 Metodologia do OE	DNO; MISAU; MEC Imprensa Nacional
PI – 12: Multi-year perspective in fiscal planning, expenditure policy and budgeting	CFMP; OE 2004-2005-2006 Análise HIPC; IMF Article IV; Relatórios Documentos das Estratégias Sectoriais;	DNO; DNP; DNAE

Indicator	Document	Source
	PTIP;	
PI – 13: Transparency of Taxpayer obligations and liabilities	Leis e regulamentos para os impostos; relatórios de Assessment	ATM, PAPs (Tax)
PI – 14: Effectiveness of measures for taxpayer registration and tax assessment	Leis e regulamentos para os impostos; sistema de registo; guias, outro material,	ATM, PAPs (Tax)
PI – 15: Effectiveness in collection of tax payments	Relatórios da DNT e ATM IMF Article IV	ATM, PAPs (Tax) e DNCP
PI – 16: Predictability in the availability of funds for commitment of expenditures	Metodologia do OE; Instrução MdF; Autorizações de despesa;	UTRAFE; DNT; DNCP
PI – 17: Recording and management of cash balances, debt and guarantees	CGE 2004-2005-2006; Inventário da dívida pública	DNT, DNCP,
PI – 18: Effectiveness of payroll controls		DNCP; DNT; MAE; ANFP; CPD, UTRAFE
PI – 19: Competition, value for money and controls in procurement	Informes Anuais sobre Procurement; CPAR; Relatórios da UFSA	UFSA; IGF; TA; CTA; DNPE; MISAU; MEC; PAPs (Procurement)
PI – 20: Effectiveness of internal controls for non-salary expenditure	Metodologia do OE; Instrução MdF; e-SISTAFE;	DNT; DNCP; UTRAFE; MEC, MISAU, IGF
PI – 21: Effectiveness of Internal Audit	Plano de Actividades do IGF; Relatórios das auditorias internas Relatórios de acompanhamento ou resposta	IGF; MISAU; MEC; TA
PI – 22: Timeless and regularity of accounts reconciliation	REO 2004-2005-2006-2007; Relatórios trimestrais ou anuais Relatórios de reconciliação bancária	DNCP; DNT; DNO; MISAU; MEC; DPPF Maputo; Município de Matola
PI – 23: Availability of information on resources received by service delivery units	ETSDS; Balanço do PES; Relatórios	MISAU; MEC; DNP; PAPs
PI – 24: Quality & timeliness of in-year budget reports	REO 2004-2005-2006; Relatórios trimestrais e anuais	DNO; DNCP; DNT; MISAU; MEC; DPPF Maputo; Município de Matola
PI – 25: Quality and timeliness of annual financial statements	CGE 2004-2005-2006	DNCP; IGF; TA
PI – 26: Scope, nature and follow-up of external audit	Relatórios de Actividades do TA; Parecer do TA sobre a CGE 2004-2005-2006	TA; MISAU; MEC AR (CPO)
PI – 27: Legislative scrutiny of the annual budget law	Metodologia do OE Lei e regulamentos do SISTAFE	AR (CPO)

Indicator	Document	Source
	Instruções do MdF e Lei Orçamental	
PI – 28: Legislative scrutiny of external audit reports	Relatórios da CPO	Comissão Parlamentar; DNO;
D-1: Predictability of Direct Budget Support	Plano de Desembolsos	DNT
D-2: Financial information provided by donors for budgeting and reporting on projects and programmes	Relatórios Revisão Conjunta, Relatórios PARPA e Matrix Estratégica, REO, Estudos e Informações	DNT; DNCI; DNO; PAPs (BAG)
D-3: Proportion of aid that is managed by use of national procedures	UTRAFE Reports, Fundos Comuns, estudos e relatórios	DNT; DNCI; DNO; PAPs (BAG)

Annex IV: Data Tables

Table I: Indicator PI-I

Data for PI - 1	2005			2006			2007		
	OE	CGE	% Exec.	OE	CGE	% Exec.	OE	CGE	% Exec.
Current Expenditure									
Salaries and Personnel Expenditure	11.044,640	10.732,500	97,2	13.325,000	12.983,000	97,4	17.904.811	12.602.345	70,4
Good and Services	5.308,296	4.425,145	83,4	5.790,000	5.774,000	99,7	15.665.826	7.236.940	46,2
Interest on Public Debt	1.283,663	1.266,155	98,6	1.568,000	1.391,000	88,7	2.078.000	817.835	39,4
Transfers	4.003,912	3.832,979	95,7	4.738,000	4.555,000	96,1	5.858.958	4.524.135	77,2
Subsidies	221,700	221,700	100,0	325,000	312,000	96,0	377.800	241.936	64,0
Capital Expenditure	139,622	66,504	47,6	112,000	103,000	92,0	27.897.420	9.281.599	33,3
Other Current Expenditure	602,624	309,288	51,3	877,000	702,000	80,0	1.102.159	429.393	39,0
SubTotal	22.604,457	20.854,271	92,3	26.735,000	25.820,000	96,6	70.884.974	35.134.183	50
Investment Expenditure									
Internally Financed	5.762,525	5.316,719	92,3	6.566,000	6.542,000	99,6	8.941.100	5.339.248	59,7
Externally Financed	13.238,543	10.739,908	81,1	15.221,000	12.458,000	81,8	22.269.399	4.894.616	22,0
SubTotal	19.001,068	16.056,627	84,5	21.787,000	19.000,000	87,2	31.210.499	10.233.864	32,8
TOTAL EXPENDITURE PI-1	27.083,319	24.904,835	92,0	31.733,000	30.971,000	97,6	77.748.074	39.655.596	51,0
			8,04%			2,40%			48,99%

Values in Million MT

Source: CGE 2004, 2005 e 2006

Table 2: Indicator PI-2

Administrative Units	2004		Variance	Absolute Variance	%	2005		Variance	Absolute Variance	%	2006		Variance	Absolute Variance	%
	OE	CGE				OE	CGE				OE	CGE			
Presidência da República	283.159	334.908	-51.748,2	51.748,2	0,183	373.399	366.811	6.588,0	6.588	0,018	397.209	484.466	-87.256,5	87.256,5	0,220
Casa Militar	135.241	131.890	3.351,0	3.351,0	0,025	142.232	152.627	-10.395,0	10.395	0,073	149.812	187.162	-37.349,9	37.349,9	0,249
Assembleia da República	219.709	233.033	-13.324,2	13.324,2	0,061	325.169	325.189	-20,0	20	0,000	299.625	344.207	-44.582,3	44.582,3	0,149
Ministério da Defesa Nacional	180.747	168.285	12.461,3	12.461,3	0,069	196.924	185.280	11.644,0	11.644	0,059	225.654	208.626	17.028,0	17.028,0	0,075
Forças Armadas da Defesa de Moçambique	886.659	858.697	27.962,3	27.962,3	0,032	997.873	983.817	14.056,0	14.056	0,014	1.076.118	1.095.085	-18.967,4	18.967,4	0,018
Ministério do Interior	1.581.475	1.639.871	-58.396,4	58.396,4	0,037	1.777.860	1.736.849	41.011,0	41.011	0,023	1.999.104	1.911.873	87.230,4	87.230,4	0,044
Serviço de Informação e Segurança do Estado	248.940	251.250	-2.310,2	2.310,2	0,009	289.921	325.774	-35.853,0	35.853	0,124	315.867	434.192	-118.324,2	118.324,2	0,375
Ministério dos Negócios Estrangeiros e Cooperação	154.719	222.661	-67.941,5	67.941,5	0,439	177.666	177.664	2,0	2,0	0,000	169.266	193.166	-23.899,6	23.899,6	0,141
Embaixadas e Outras Representações Diplomáticas	526.075	533.382	-7.306,7	7.306,7	0,014	536.574	533.862	2.712,0	2.712	0,005	753.120	651.176	101.943,6	101.943,6	0,135
Universidade Eduardo Mondlane	462.045	447.674	14.371,0	14.371,0	0,031	541.662	481.533	60.129,0	60.129	0,111	693.805	615.491	78.313,4	78.313,4	0,113
Ministério do Plano e Finanças ¹	271.598	339.459	-67.860,8	67.860,8	0,250	187.027	248.175	-61.148,0	61.148	0,327	226.990	169.977	57.013,4	57.013,4	0,251
Direcção Geral das Alfândegas	395.858	423.656	-27.797,9	27.797,9	0,070	444.548	427.747	16.801,0	16.801	0,038	624.945	539.589	85.355,3	85.355,3	0,137
Serviços de Medicamentos, Aparelhos, E.M.	56.928	77.595	-20.667,9	20.667,9	0,363	69.510	71.170	-1.660,0	1.660	0,024	73.598	93.796	-20.197,3	20.197,3	0,274
Ministério da Agricultura	253.915	188.518	65.396,9	65.396,9	0,258	216.868	117.153	99.715,0	99.715	0,460	97.725	82.172	15.552,7	15.552,7	0,159
Direcção Provincial de Agricultura	463.844	373.778	90.066,0	90.066,0	0,194	246.662	223.450	23.212,0	23.212	0,094	256.779	187.265	69.514,0	69.514,0	0,271
Ministério da Educação ²	184.098	126.975	57.123,4	57.123,4	0,310	452.508	346.832	105.676,0	105.676	0,234	521.708	424.025	97.682,1	97.682,1	0,187
Tribunal Administrativo	72.020	75.797	-3.776,6	3.776,6	0,052	108.104	85.816	22.288,0	22.288	0,206	118.949	105.330	13.618,7	13.618,7	0,114
Ministério da Saúde	910.424	666.473	243.950,9	243.950,9	0,268	1.064.750	624.144	440.606,0	440.606	0,414	1.071.859	994.053	77.805,3	77.805,3	0,073
Hospital Central de Maputo	186.996	176.177	10.819,0	10.819,0	0,058	228.921	197.861	31.060,0	31.060	0,136	455.643	244.174	211.469,1	211.469,1	0,464
Universidade Pedagógica	130.590	117.378	13.211,7	13.211,7	0,101	125.973	124.432	1.541,0	1.541	0,012	147.453	136.188	11.264,6	11.264,6	0,076
Total of the Adm. Units	7.605.039	7.387.456	217.583,1	859.843,8		8.504.151	7.736.186	767.965,0	986.117		9.675.229	9.102.015	573.213,4	1.274.368,0	
Others	7.582.871	7.366.439	216.432,6			8.477.068	7.711.281	765.786,5			9.643.496	9.071.044	572.451,4		
Total Expenditure (including internally financed investment)	22.167,964	21.017,469	1.150,495	859.843,800	11,31%	27.083,32	24.904,84	2.178,5	986.117	11,60%	31.733,00	30.971,00	762,0	1.274.368,0	13,17%
Total variance at 20 main institutions	7.605.039	7.387.456		859.843,800	11,31%	8.504.151	7.736.186		986.117	11,60%	9.675.229	9.102.015		1.274.368,0	13,17%
Compositional variance (in excess at aggregate variance)					6,12%					3,55%					10,77%

year	for PI-1 total exp. deviation	Total exp. variance	for PI-2 variance in excess of
2003/4	5,2%	11,3%	6,1%
2004/5	8,0%	11,6%	3,6%
2005/6	2,4%	13,2%	10,8%

Fonte: CGE 2004, 2005 e 2006



Table 3: Indicator PI-3

Data for PI - 3	2004			2005			2006			2007		
	OE	CGE	% Exec.	OE	CGE	% Exec.	OE	CGE	% Real.	OE	CGE	% Exec.
Current Revenue												
Tax Revenue	16.691,57	14.884,01	89,2	19.777,13	18.024,18	91,1	23.569,60	23.407,48	99,3	27.245	20.517	75,3
Non Tax Revenue	786,55	671,13	85,3	766,08	788,92	103,0	1.000,59	941,75	94,1	2.391.525	1.590.992	66,5
Own Revenue	0,00	0,00	0,0	621,84	707,08	113,7	1.096,42	1.612,32	147,1	994.771	648.319	65,2
Assigned Revenue	274,36	387,36	141,2	379,07	297,90	78,6	570,27	502,05	88,0	1.550.378	1.138.313	73,4
SubTotal	17.752,49	15.942,50	89,8	21.544,12	19.818,08	92,0	26.236,88	26.463,61	100,9	4.963.919	3.398.141	68,5
Capital Receipts												
Receitas de Capital	58,01	34,95	60,3	681,79	1.123,67	164,8	779,86	1.333,06	170,9	1.830,20	1.249,00	68,2
SubTotal	58,01	34,95	60,3	681,79	1.123,67	164,8	779,86	1.333,06	170,9	1.830	1.249	68,2
TOTAL REVENUE	17.810,49	15.977,45	89,7	22.225,91	20.941,75	94,2	27.016,73	27.796,66	102,9	4.965.749	3.399.390	68,5
TOTAL CURRENT REVENUES	17.752,49	15.942,50	89,8	21.544,12	19.818,08	92,0	26.236,88	26.463,61	100,9	4.963.919	3.398.141	68,5

Millions of Mts

Source: CGE 2004, 2005 & 2006, REO for Q1-3, 2007

Table 4: Indicator DI

Countries	2004					2005					2006																			
	Pledges					Disbursements					Pledges					Disbursements														
	1Trim	2Trim	3Trim	4Trim	TOT	1Trim	2Trim	3Trim	4Trim	TOT	1Trim	2Trim	3Trim	4Trim	TOT	1Trim	2Trim	3Trim	4Trim	TOT	1Trim	2Trim	3Trim	4Trim	TOT					
Germany			4,2		4,2				4,3	4,3	4,7				4,4					11,9					12,7	0,0	12,7			
Belgium	3,4				3,4	3,7				3,7	2,7				2,7					3,6	3,6				3,8	3,8				
Denmark				10	10									10,0	10,0					9,6	9,6				2,6	2,6				
Finland			4,8		4,8				4,9	4,9	4,8				4,8					6,0	6,0			62,3		62,3				
France	3,4				3,4	3,8				3,8	4,0				4,0	3,9				3,6	3,6	3,8				3,8				
Netherlands	11,4		4,8	4,8	21	12,3			4,9	5,3	22,6	18,6			18,6	18,1				2,3	19,1	21,4	2,5		20,3	22,9				
Ireland		6,9			6,9			7,1		7,1	7,2				7,2	7,8				7,2	7,2	7,2				7,2				
Italy		3,6			3,6			3,8		3,8	4,3				4,3	4,2		3,9								0,0				
Norway				8,8	8,771				9,4	9,4	10,0				10,0	10,7				8,1	3,0	11,1	6,0		12,5	12,6	31,2			
United Kingdom	24,3				24,3	27,4				27,4	29,0				29,0	56,5				61,9		61,9	62,2			62,2				
Sweden			9,3	4,5	13,8				9,4	4,5	13,9				14,9	14,9				17,6	7,6	25,2	18,0		8,2	26,2				
Switzerland (fixed)			7,4		7,4				7,4	7,4					3,7	3,7				6,6	6,6		6,7			6,7				
Switzerland (variable)															3,7	3,7				0,0	0,0					0,0				
European Union (fixed)			34,1		34,09				36,6	36,6					39,9	39,9				29,8		29,8		30,9		30,9				
European Union (variable)			11,0		10,99				11,0	11,0					18,0	18,0				14,7		14,7		18,3		18,3				
World Bank															60,0	60,0				60,0	60,0	60,0				60,0				
Spain															0,0											3,8				
ADB															2,4							60,0	60,0		60,4	60,4				
Canada											2,2				2,2	2,0				2,2		2,2	2,1			2,1				
Portugal															1,5	1,5				0,0	1,5	1,5		1,5		1,5				
TOTAL	42,5	10,5	75,6	28,1	156,7	47,1	10,9	78,4	19,2	155,6	73,1	14,3	141,6	10,0	239,0	103,6	14,1	86,7	13,2	217,6	162,8	58,5	45,1	73,2	339,6	161,9	119,8	57,6	79,4	418,7

Source: Direcção Nacional do Tesouro (DNT)