



REPUBLIC OF MOZAMBIQUE

TECHNICAL ASSISTANCE REPORT — FOLLOW-UP ON REFORMS IN PUBLIC FINANCIAL MANAGEMENT

January 2023

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April 2013



Republic of Mozambique

*Follow-up on Reforms in Public
Financial Management*

**Juan Ramón Ruiz, Margarida Azevedo, Joseph
Cavanagh, Helio Tollini, and Esther Palacio**

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ABBREVIATIONS AND ACRONYMS

AP	Action Plan
AT	Revenue Authority
BM	Bank of Mozambique
CEDSIF	Center for Development of Financial Information Systems
CGE	General Public Accounts
COBIT	Control Objective for IT
CPD	Data Processing Center
CUT	Single Treasury Account
CUT-ME	Single Treasury Account – Foreign Currency
CUT-MN	Single Treasury Account – Domestic Currency
DAF	Directorate of Administration and Finance
DEAE	Directorate of Research and Economic Analysis
DNCP	National Directorate of Public Accounts
DNO	National Budget Directorate
DNPE	National Directorate of Public Assets
DNPS	National Social Security Directorate
DNT	National Treasury Directorate
e-CAF	Module for registry of staff
e-CAP	Module for registry of pensioners
e-Payroll	Payroll management system
e-SISTAFE	SISTAFE computer system
e-Taxation	Tax administration system
EY	Ernst & Young
FAD	Fiscal Affairs Department (IMF)
GARE	Guide to the Collection of Public Revenue
GoM	Government of Mozambique
GProv	Provincial Government
IGEPE	State Equity Holding Management Institute
IGF	Inspectorate General of Finance
IMF	International Monetary Fund
INSS	National Institute of Social Security
IPSAS	International Public Sector Accounting Standards
ISPC	Corporate income tax
IT	Information technology
JUE	Electronic Single Window
MAE	Ministry of State Administration
MCT	Ministry of Science and Technology
MEO	Budget Preparation Module
MF	Ministry of Finance

MMAS	Ministry of Women and Social Welfare
MOPH	Ministry of Public Works and Housing
MPD	Ministry of Planning and Development
MTEF	Medium-Term Expenditure Framework
NUIT	Single Taxpayer Identification Number
ODAMOZ	Overseas Development Aid for Mozambique
OGE	General Government Budget
PAO	Budget Action Plan
PARP	Poverty Reduction Action Plan
PEFA	Public Expenditure and Financial Accountability
PES	Economic and Social Plan
PFM	Public Finance Management
PPP	Public-Private Partnership
PQG	Five-Year Government Plan
REO	Budget Execution Report
ROSC	Report on Observance of Standards and Codes
SGRH	Human Resource Management System
SISTAFE	Public Sector Financial Management System
SNPO	National Planning and Budget System
TA	Administrative Tribunal
UGB	Receiving Management Unit
UGE	Executing Management Unit
UTRAFE	Technical Unit for Reform of Public Financial Management
VAT	Value-Added Tax

PREFACE

At the request of the Ministry of Finance (MF), and with the financial assistance of the Danish Embassy in Mozambique, a mission of the Fiscal Affairs Department (FAD) of the International Monetary Fund (IMF)¹ visited the Republic of Mozambique during the period from April 3 to 16, 2013, in response to a request for technical assistance in the area of public finance management. The main objectives of the mission were as follows: (i) assess establishment of SISTAFE (Public Sector Financial Management System) and respective action plan, and propose improvements; (ii) evaluate implementation of the recommendations made by previous missions; and (iii) discuss with the authorities the effectiveness of the public management reforms, and support for establishment of the next phases of the reforms.

The mission had meetings with the Vice-Minister of Finance, Pedro Couto, the Director-General of the Center for Development of Financial Information Systems (CEDSIF), Augusto Sumburane, the National Director of the Treasury (DNT), Maria Isaltina Lucas; the National Director of State Assets (DNPE), Albertina F. Ruquia; the National Director of the Budget, Amílcar Tivane; the Inspector General of Finance (IGF), Carolina Pessane; the National Director of Public Accounts (DNCP), Amélia Mutemba; the National Director of Research and Economic Analysis, Isabel Sumar; the Deputy Director of the Research, Planning and Cooperation Department, and their respective teams.

The mission also visited: the Administrative Tribunal (TA), where it met the Accountant-General for General Public Accounts, Moisés Amaral, and the Accountant-General for Accounts and Audits, Jeremias Zuande; the National Director of Planning and Cooperation, José Maduela, and other management officials; the Ministry of Public Works and Housing (MOPH), meeting with the Deputy Director of the Department of Financial Administration (DAF), Joel Mandlane; the Ministry of Women and Social Welfare (MMAS), meeting with the Minister, Iolanda Cintura; the Ministry of Planning and Development (MPD); the Ministry of State Administration (MAE), meeting with Director of Planning and Institutional Development, Cândida Moiane; the State Equity Holding Management Institute (IGEPE), meeting with the Chairperson of the Board of Directors, Apolinário Panguene; the District of Marracuene, meeting with the Administrator, Maria Vicente; and the Municipality of Matola, meeting with the Mayor, Arão Nhancale, and the Councillor (*Vereador*) responsible for Finance, Xadrequê.

In addition, the mission met on two occasions with the SISTAFE international partners group, to discuss the work program, as well as its conclusions.

¹ Mr. Juan Ramón Ruiz, (Mission Head, FAD), Ms. Margarida Azevedo and Messrs. Helio Tollini and Joseph Cavanagh (consultants) and Ms. Esther Palacio, Technical Assistance Coordinator in the IMF Office in Maputo.

The work of the mission was facilitated by the active participation of Víctor Lledo, the Resident Representative of the IMF in Mozambique, and of Esther Palacio, technical assistance coordinator in the IMF office, to whom our thanks go for their very efficient support. We would like in addition to express our thanks for the ongoing participation in our meetings and support provided by the managers, technical staff and consultants of the MF, and in particular Tricanu Taju, Florência Suamade, and António Amâncio Ramalho, who provided information that proved highly useful to the mission.

EXECUTIVE SUMMARY

The reforms continue to advance in Public Finance Management (PFM) in Mozambique. The main results in 2012 were as follows: expansion of the system for salary payment; incorporation of new executing units (UGBs) within the SISTAFE, surpassing the target that had been set for the year; use of unified budget ceilings for the provinces, permitting greater autonomy in the allocation of resources to these units; preparation of budgets at a more aggregate level of the system of economic classification of expenditure, preventing mismatches between budget allocations and commitments; the possibility of incorporation into the budget of the funding generated by internal revenues over the course of the financial year, which increased the yield of revenue from this source; a steady increase in the coverage of the CUT (Single Treasury Account), with the closing of 146 accounts; the carrying out of electronic transfers of financial resources through the CUT, both for revenue collection, as well as for the payment of expenditures; approval of a law on the public enterprises overseen by the Ministry of Finance (MF); drawing up of an action plan in October 2012 to implement accrual accounting (*contabilidade patrimonial*); approval of a new conceptual model of internal control; and decentralization of the CEDSIF to the provincial level, with the hiring of two technical staff per province.

Since the visit of the last mission, efforts have been made to improve the General Public Accounts (CGE). The DNCP analyzed the discrepancies in the charts and appendices to the CGE that were identified in the last mission, in order to improve the presentation of CGE 2012. As well, an Action Plan was approved in October 2012 to implement accrual accounting in line with international standards (IPSAS). The next step will be the drawing up of new regulations for public accounts, which will be sent to Parliament for approval prior to end-2013. In the area of internal control, a new conceptual model was likewise approved in October 2012, which seeks improvements in the coordination and methodology for internal audit.

As was indicated in the previous mission, it is necessary to develop a more effective strategy to ensure the recording at the proper time of the various phases of expenditure execution: commitment, validation and payment. This aspect is very important for the carrying out of planning and oversight of budget execution by the executing entity itself, and likewise in order to provide information to the DNT for purposes of cash planning.

Advances are being seen each year in relation to preparation of the Medium-Term Expenditure Framework (MTEF). The new MTEF for the 2014–2016 period, which is in the final phase of preparation, will establish limits by sector, and contain more targets and indicators for the budgetary programs. Nevertheless, it is necessary to correct some omissions in the MTEF, like the absence of alternative economic scenarios, of analysis of fiscal risks, of increasing reserves in order to offset the increased uncertainty over the years,

and the explanations in subsequent MTEFs as to the variations observed in the ceilings within a given fiscal year.

The recommendation from the previous mission remains valid in regard to the setting of objectives and indicators in the budget programs, and establishing the necessary connections between the national plans and the budget, which demands a considerable effort in coordination between the MPD, the MF and the ministries. Program-based budgeting and execution should be gradually implemented, with their development and application to pilot units, in order to adapt the methodology to Mozambique's characteristics and capacity. Moreover, it is necessary to review concepts and reframe public expenditure within the categories of "operations" and "investments", as well as reviewing the current responsibilities of the DNP and of the DNO, such that one of them be responsible for the planning instruments, and the other for the OE (government budget).

It is important to improve cash management, with better cash planning through budget execution information, which should be provided by the executing units, in particular in reference to commitment and validation of expenditures. Planning should progressively get expanded from the current monthly to a quarterly basis. Ministerial orders should also be approved for application of a classification for the bank accounts, and to improve integrated management of the CUT mechanisms for domestic and foreign currencies. Continuing to increase CUT coverage is an important issue, as is the imposition of penalties for accounts opened without meeting the legal requirements, and the increasing by degrees of incorporation of the internal revenues of the entities, as well as funds from external financing. Moreover, reforms should be pursued to automate the daily transfer to the CUT of the balances on the revenue accounts.

It is important to follow up on expansion of the system for payment of salaries (e-Payroll), which is an effective and secure system. The most recent irregularities with the payment of salaries within the Ministry of Education could have been avoided if this system were in operation. In 2012 the process was expanded of payment of salaries for public employees in 595 institutions, but on December 31, 2012 overall coverage still only came to 33 percent (81,750 staff). Additional effort should be made to update the staff registry (e-CAF) and ensure that at the end of 2013, the salaries of all public employees get paid by direct route to e-SISTAFE home banking.

The significant increase in the quantity and complexity of the computer systems constitutes a challenge for the CEDSIF, for which reason it should address implementation of the information and communication technologies in a more structured way, from the viewpoint of best governance practices. Despite the notable development of the CEDSIF in this area, through the drawing up of the "Software Quality Plan" and of the "Regulation for Security of Information Systems", it is advised to carry out a computer governance audit in order to

acquire improved knowledge concerning the current situation in terms of adherence to international standards.

Table 1 presents a summary of the recommendations of previous missions, as well as the status of their implementation.

Table 1. Implementation of the SISTAFE Reform – Action Plan, 2010–2015

Recommendation	Unit Responsible	Timetable	Priority	Current Situation/Position of the Authorities
1. Budget preparation				
1.1 Include the operations of all government entities, including the autonomous institutions and funds, in the budget.	DNO, DNT and DNCP	2014	High	The state entities are all included in the OE. The firms with stockholding by the state appear in the OE when they pay dividends or receive subsidies, or there are increases in capital. The autonomous institutions appear as appendices to the OE, within the terms of the law;
1.2 Include all own-generated and earmarked revenue in the budget.	DNO, DNT	2014	High	The 2010 MF Circular made provision for the collection of own-generated revenues, with a certain time limit for their classification, permitting registration within the OE during budget execution. In budget preparation, the DNP/DNO came to exclude internal revenue from the ceiling for sectoral programming. With that, a significant increase was noted in 2012 in collection of own-generated and earmarked revenues. Meanwhile, one continues to note a necessity for other actions with a view to overseeing the units that generate those revenues, in such a way as to ensure they get collected in full in the CUT. In addition to the e-Taxation module, which will allow direct collection of revenues to the CUT, a proposal is under review in the DNT for a Ministerial Order that, together with the Bank of Mozambique Notice, will require that the banks prohibit transactions on accounts of a revenue nature, for purposes other than collection for the CUT.
1.3 Make a distinction between own-generated revenue and directly collected earmarked revenue.	DNO, DNT			Completed in 2011. Distinction made in the regulation.
1.4 Rationalize use of earmarked revenue, and if possible, eliminate it.	DNO, DNT	2014	Low	Under way. There are no plans on the part of the government to review the legislation at the origin of the earmarked revenue, so as to avoid unnecessary expenditure or idle financial resources. However, a submodule will be introduced within the MEO (Budget Preparation Module), which will allow the UGBs (Receiving Management Units) to manage those resources with greater efficiency.
1.5 Allow the recording in the same financial year of any surplus collection of own-generated revenue.	DNO, DNT			Completed. Circular 1/MF/2010 (Article 14) permits recording of financial balances and surpluses from collection of revenue for the following fiscal year.
1.6 Include in the budget all operations with external resources from cooperation partners.	DNO, DNT	2014	High	Under way. The baseline information from ODAMOZ data does not coincide with the information provided by the line ministries to the DNO (National Budget Directorate), and thus the DNO came to take into consideration only the data provided by the line ministries. Difficulties remain in consideration of donations in kind.
1.7 Improve the budget legislation, altering the rule of twelfths in the years in which the budget has not yet been approved by the Assembly.	DNO	2013	Low	Not implemented. The government maintains the 2012 stance. The mission will not recommend any additional measure in regard to the adoption of alterations in those procedures, due to understanding that it is up to the government to find the practice that is best adapted to its local reality.
2. Medium-Term Expenditure Framework – MTEF				

Recommendation	Unit Responsible	Timetable	Priority	Current Situation/Position of the Authorities
2.1 Improve the Medium-Term Expenditure Framework (MTEF) and increase the quality of the macrofiscal projections, the drawing up of alternative scenarios, sensitivity analysis and assessment of fiscal risks.	DNO and MPD	2013	High	Under way. The allocation of overall limits has begun for the provincial level, in particular for the components of Goods and Services and Investment. One no longer works with alternative scenarios, because of the tendency of the Council of Ministers to always opt for the scenario that presents the highest planning ceilings.
2.2 Establish a formal legal framework, a specific timetable, and the distribution of responsibilities for preparing the MTEF, providing for approval by the Council of Ministers.	DNO, CEDSIF and MPD	2012	High	Under way. This subject is contemplated in the proposal for the National Planning and Budgeting System. Its conceptual model already details in some depth the functional issue of planning and budgeting instruments.
2.3 Improve coordination with the line ministries at the time of the budget preparation proposals.	MPD, MF and sectoral bodies			Completed. This is an ongoing activity, since in the process of drawing up of the OE, the line ministries are called in by the DNP and DNO for joint meetings for harmonization of their proposals.
2.4 Prepare a study to determine the cost of creating new decentralized units (in the provinces, districts, and municipalities), and explain the sources of financing for such expenditure when the units are created.	MAE, DNO and MPD	2012	Medium	Not implemented. Thirteen districts have been created in the first quarter of 2013 (going from 128 to 141), and the creation of new municipalities is under discussion. These changes are sustained in an assessment undertaken by the MAE. In recent years, the powers of the district level have progressively increased, along with the budgetary expenditures executed at this level. It would be appropriate to carry out an assessment of the current situation with fiscal decentralization of revenues and expenditures.
2.5 Include information comparing operating expenditure with current revenue (being implemented).	DNO			Completed in 2011. Both the data from the CGE, as well as those from the OE, allow for the obtaining of this information. For the 2013 Budget, current expenditures absorb 87.5% of current revenues.
2.6 Include social security information in the MTEF so as to identify possible contingent liabilities.	DNO and DNPS	2014	Medium	Not implemented. The actuarial study is scheduled.
2.7 Prepare the PARP, taking account of the fiscal ceilings in the MTEF.	MPD and DNO			Completed. The 2011–2014 PARP was undertaken taking into consideration the fiscal envelopes defined in the MTEF.
3. Program-based budget				
3.1 Improve the programming classification to make it consistent with government programs and integrated with the Plan.	MPD, DNO and line ministries.	2013	Medium	Under way. In 2012, CEDSIF worked on a pilot for the new structure for the system of program headings, where the actions may be given in greater detail so as to meet the specific needs of each sector. The result of that experience will be analyzed jointly by the DNO and the CEDSIF, with a view to the possibility of its use being extended to all of the line ministries. For the new PQG, one looks to implement a new program classification, developed in conjunction with the line ministries, and that would afterward be extended to the MTEF and OE.
3.2 Include physical targets in the programs	MPD, DNO and line ministries.	2012	Medium	Under way. DNP/MPD is working along with the line ministries to try in the next MTEF to fill the current gap, in which 70% of the programs fail to present a physical target or indicators.

Recommendation	Unit Responsible	Timetable	Priority	Current Situation/Position of the Authorities
3.3 Review the district-level programs.	DNO and MPD	2015	Medium	The creation is under way of a working group to include the MPD, DNO and CEDSIF, with the objective of reflecting on program review overall for the different levels of the administration.
3.4 Identification of outcome indicators in the programs.	MPD, DNO and line ministries.	2012	Medium	Under way. As new programs get inserted into the OE, their outcome indicators get created. Within the context of the drawing up of the 2014–2016 MTEF, work is being done with the line ministries toward defining outcome indicators for the missing programs.
4. Budget and Financial Execution				
4.1 Establish a timetable and give details of the scope of the SISTAFE rollout, with a date for completion.	CEDSIF			Completed. Timeline prepared and being implemented, with the expectation of completion of the rollout in 2015, with this being 70 units per year. In 2012 the target was surpassed, with the inclusion of 106 new UGBs.
4.2 Require that the number of the commitment note (NC) be stated in each contract.	DNT, CEDSIF	2012	High	Under way. The functionality was developed in 2012, and its use is expected in the second quarter of 2013, as a pilot in the Debt area.
4.3 Carry out budgetary and financial programming, now on a monthly basis, based on the expenditure appropriated and validated, and taking in the entire fiscal year.	DNT	2013	High	Not implemented. Is under study with the DNT, where an implementation plan will be prepared for this recommendation.
4.4 Take action concerning the procedure whereby, in budget execution, payment is often made before delivery of a good or service and the commitment and validation phases are not properly recorded.	DNT, CEDSIF	2015	High	Starting from 2013, the DNT is to commence release of funds (<i>quotas financeiras</i>), unlinked from the budget commitment limit. In addition, the system has been altered, removing the constraint that impeded validation of the expenditure in the cases in which there was no release of funds by the Treasury. Concurrently, activities are being undertaken so as to raise the awareness of the units regarding the importance of recording the phases of expenditure (commitment, validation and payment) at the time at which they occur.
4.5 Include information in the budget execution report (REO) on the monies appropriated, validated and paid out, by Ministry.	DNCP, DNT, CEDSIF	2012	Medium	In 2012 the conditions were created such that the information can be included in the REOE, as from Q1 2013.
4.6 Disseminate to the line ministries the annual financial programming, with a monthly breakdown of execution.	DNT	2012	High	Under way. In the process of dissemination. Implementation will be in 2013.

Recommendation	Unit Responsible	Timetable	Priority	Current Situation/Position of the Authorities
4.7 Define a new strategy for e-SISTAFE rollout.	DNT, CEDSIF	2012	Medium	<p>e-SISTAFE has been installed in 106 more UGBs. At present it is implemented in 620 UGBs.</p> <p>The process of e-SISTAFE rollout to the various entities and institutions of the state has been translated into a very positive trend in execution of the state budget by the direct route, which reached the level of 52.6%. (In 2011 this level was 42%.)</p> <p>The objective of completing e-SISTAFE rollout in 2015 is entirely achievable.</p> <p>In order to support the e-SISTAFE rollout, the CEDSIF hired two resident technical staff for each province (one for hardware and one for software). This effort to decentralization on the part of the CEDSIF will have positive impacts on the rollout, and on the quality of use of e-SISTAFE.</p>
5. Single Treasury Account – CUT				
5.1 Streamline the use of bank accounts by entities covered in the budget and operating directly in e-SISTAFE, classify the off-CUT bank accounts by type of account (revenue collection, working capital, external projects, etc.), define a strategy for closing off-CUT accounts, and establish rules for exceptions to using the CUT.	DNT, CEDSIF and BM	2014	High	<p>Under way. The proposed Ministerial Order for a classification of accounts is being harmonized with the BM, which is also preparing a proposed Notice from the Governor on the specific matter. In parallel, the commercial banks have been asked to inform as to all of the public accounts (holders, account balance and most recent transactions), with a view to undertaking a filtering of those accounts to be closed down. In line with the legislation in effect, the opening of accounts requires authorization from the DNT, and their closing may be carried out following 60 days without transactions. In 2012, 146 accounts were closed and 68 accounts authorized. Particular attention has to be paid to the accounts created by bodies without authorization from the DNT.</p>
5.2 Increase the scope of the CUTs in foreign currency (CUT-ME) and in domestic currency (CUT-MN). Include in the CUT, the resources of the entities covered in the OE and operating in e-SISTAFE, including own-generated revenue.	DNT, CEDSIF and BM	2014	High	<p>Under way. There is a direct relationship between the e-SISTAFE and e-Payroll rollout, and the reduction in the number of bank accounts of the line ministries on the commercial banks. Despite the efforts made to close off-CUT accounts, such accounts have in practice been increasing in the last year, due their opening by institutions without authorization from the Treasury. It is important to transfer external financing resources to the CUT from the decentralized management units, and from the bodies that execute in e-SISTAFE, as well as classifying by typology the accounts that are to remain off-CUT, and defining the rules for maintenance of such accounts.</p>
5.3 Automate the transferring of revenue account balances to the CUT so that the account balances can be returned to zero daily.	DNT, CEDSIF and BM	2014	High	<p>Under way. An advance has been recorded with implementation of the Single Electronic Window in the levying of revenue from bank-mediated foreign trade. Further still, there are many off-CUT revenue accounts that only transfer resources following manual classification of the revenue. The Revenue Collection Module is being developed within e-Taxation, which will bring improvements in the procedures for classification of revenues.</p>
5.4 Channel through the CUTs (CUT-ME and CUT-MN) externally sourced funds from entities that execute in e-SISTAFE.	DNT/CEDSIF	2014	High	<p>Under way. Disbursements of external financing received in 2012 for budget support, pool funds and projects that pass through CUT, had a 55% share (as against 56% in 2011), with 45% outside of CUT. It is important to pursue the raising of awareness amongst the partners to the use of CUT, given that payments by the direct route within e-SISTAFE offer greater security.</p>

Recommendation	Unit Responsible	Timetable	Priority	Current Situation/Position of the Authorities
5.5 Ensure the integrated management of the CUT-MN and CUT-ME, and disseminate information on the mechanisms for managing the CUT.	DNT, BM, CEDSIF			Completed in 2009. Coordination is under way to unite the two CUT mechanisms, given that some procedures are not harmonized (such as hard currency conversion starting from meticaís). It is important to approve a single legal order for integrated management (CUT-ME and CUT-MN), and finalize adjustment of the computer systems.
5.6 Implement the payment-abroad functionality, through the CUT-ME.	DNT, CEDSIF and BM			Completed and implemented by CUT-ME, although still without a great deal of visibility, due to the fact of FR 101 still not going through CUT-ME, and thus that the BM only permits automatic conversion from foreign currency to domestic currency up to a certain amount. Talks are under way to overcome this problem.
6. Procurement and letting of contracts				
6.1 Improve and make more flexible the procedures for the letting of public contracts.	DNPE			Completed. New legislation approved in 2009.
6.2 Approval of rules to complement implementation of the regulation for letting of contracts.	DNPE			Completed. New regulation for letting of contracts approved in 2010.
6.3 Include in the contracts the number of the Commitment Note that gives budget coverage to the expenditure.	DNCP, DNT, CEDSIF, DNPE	2013	High	To be initiated. Interconnected with 4.2.
7. Payroll				
7.1 Gradually widen the application of e-Payroll to speed up replacement of the four systems in which payroll is currently managed, and use biometric control of staff to verify their identity.	DNCP, DNT and CEDSIF			Under way. Although expansion of e-Payroll has reached the near-totality of the institutions of the central government, the level of salaries paid by means of this system remains low. Over the year 2012, follow-up was done on the rollout of e-Payroll in the institutions of the state with staff registered on the staff register (e-CAF) and that have available the integrated computerized financial management system (e-SISTAFE). Out of the universe of 247,725 state functionaries and agents that existed in 2012, 81,750 were paid via e-Payroll, which is to say 33%. e-Payroll has been expanded to 595 more institutions, with six at central level, 136 at provincial level, and 104 at district level, plus 349 district-level schools. In 2012, processing and payment of salaries was expanded, with the use of e-Payroll for 595 more institutions, of which six at central level, 136 at provincial level, and 104 district-level institutions, plus 349 district-level schools. From 2010 to date, e-Payroll has been expanded to 1035 new sectors, of which 122 at central level, 460 at provincial level, and 104 district-level institutions, plus 349 district-level schools.

Recommendation	Unit Entity Responsible	Deadline	Priority	Current Situation/Position of the Authorities
8. Revenues				
8.1 Implement the unified document, Guide to the Collection of Public Revenue (GARE).	TA, DNT, CEDSIF	2012	High	<p>Under way. The Guide will be implemented with the implementation of the VAT/ISPC Module of the e-Taxation project, the pilot for which is expected at the end of the present year. The business model and model for common procedures have already been prepared. Establishment of the unified collection document, in coordination with the Revenue Authority (AT) and the National Treasury Directorate (DNT).</p> <p>The conceptual model for e-Taxation envisages one single guide for the collection of public revenue (GARE), the Guide to the Collection of Public Revenue, to be generated exclusively by the e-SISTAFE Collection Network module. This Guide respects the principles of integrity, validity and security of information, and will serve for collection of all public revenues. At this time the business model for the “collection network” module is being completed, and it will be implemented with the VAT and ISPC modules. Both the conceptual model and the business model are in an advanced stage of development. The Guide will be implemented at the same time as the entry into production of the VAT and ISPC modules of e-Taxation, the pilot for which is expected at the end of the year 2013. The Business Model and the Common Procedures Model have already been prepared.</p>
8.2 Implement the network for electronic revenue collection directly through the banking system.	TA, DNO, CEDSIF, BM	2012/2014	High	<p>Under way. The business model is being drawn up. Implementation will be through taxes, in accordance with the timeline defined by the TA. The first taxes to be collected in the collection network will be VAT and ISPC.</p> <p>Revenue collection through the bank network has already been implemented for the taxes on foreign trade, through the Single Electronic Window. It will be implemented in the coming year in the collection of domestic taxes, with the full launch of the VAT/ISPC Module. The Business and Common Procedures Model is being drawn up (payment via the bank), as are interfaces to the banks (communication between the banking system and the e-Taxation system). The pilot is expected in 2014.</p>

Recommendation	Unit Responsible	Timetable	Priority	Current Situation/Position of the Authorities
9. Accounting				
9.1 Prepare an action plan for implementation of the reform of public accounts	DNCP, DNT, DNO, DNPE, CEDSIF	Oct 2012	High	Action plan drawn up, approved and being implemented. In February 2013 the implementation seminar was held, amongst the National Directors and technical staff of the Ministry of Finance, with the objective of presentation of the implementation plan for adoption of the IPSAS. CEDSIF, DNCP and the Ernst & Young consultants are working to produce new accounting standards prior to the end of June 2013, for the approval by Parliament prior to the end of 2013.
9.2 Implement phased accounting reform.	DNCP, DNT, DNO, DNPE, CEDSIF	Medium- and long-term	High	The current work of Ernst & Young follows the timeline containing the following phases: <ul style="list-style-type: none"> • Establishment of accounting standards, and initial training, in the years 2012–2013 • Implementation of the new chart of accounts within pilot institutions, over the years 2014–2017; and • Overall implementation of the Plan, through gradual inclusion of all of the entities, and consolidation in 2018 and subsequent years. In the 2012 account, the explanatory notes will be improved, with the inclusion in them of all of the details that may contribute to better clarifying the differences that exist between the data present in the charts, tables and informational appendices.
9.3 Amend/clarify the legislation to eliminate bookkeeping on operations executed directly in e-SISTAFE.	DNCP, in coordination with the IGF and TA			Circular 02/MF/2011 of April 4, governs the use of book-keeping in direct and indirect execution. The Tribunal confirmed that it will accept the Circular in the audits of fiscal year 2013.
9.4 Amend/clarify the legislation as regards the requirement for the “receipt” from suppliers in invoices for payment confirmation.	DNCP	2014	Low	Not implemented. The authorities take the view that elimination of the receipt is still premature, pending completion of establishment of e-Taxation.
9.5 Include two additional columns in the REO, with information on commitment and validation.	DNCP	2012	Medium	The information will be presented in the REOE for Quarter 1 of 2013. It was not available at the time of this mission.
10. Internal and External Controls				
10.1 Clarify and disseminate the concepts, objectives and responsibilities of internal control, internal audit and external control.	IGF and TA.			Seminars held in 2010 and 2012
10.2 Verify the reliability of the information included in the CGE and the budget	IGF and DNCP	2012	High	Completed. The requirement was created for issuance of a report on the management account, through e-SISTAFE.
10.3 Increase the use of e-SISTAFE as a tool in support of internal control and audit work.	IGF and sectoral inspectorates.	2014	High	Completed. IGF created a laboratory with terminals that access e-SISTAFE, in order to obtain information to be used in the audits. It is developing the capacity of the internal audit units of the bodies.
10.4 Modify the documentary requirement and include a checklist for improving the internal controls.	DNT, CEDSIF, IGF	2013	High	The functionality was developed in 2012, and its use is expected in the second quarter of 2013.
10.5 Coordinate the audit work to be done by TA, IGF, and internal control units.	IGF, OCI and TA			Completed in 2011. The TA and IGF are already routinely exchanging audit plans, and holding meetings to discuss working methods and other forms of cooperation.

Recommendation	Unit Responsible	Timetable	Priority	Current Situation/Position of the Authorities
10.6 I Increase the use of e-SISTAFE as a tool to support external control work.				Completed in 2011. The TA is using e-SISTAFE in audit work.
10.7 Increase the training of TA auditors in the use of e-SISTAFE.	TA and CEDSIF			Completed. Activity carried out in 2011.
10.8 Until the e-Procurement and e-Assets modules have been implemented, develop simplified contract control in e-SISTAFE, providing for the recording of prior TA approval.	DNT, CEDSIF	2013	Medium	The functionality was developed in 2012, and its use is expected in the second quarter of 2013.
10.9 Certify the quality of the internal controls on the public entities, in accordance with the Agreed Activity Plans.	TA and IGF	2014	Medium	Not initiated. In the new Conceptual Model for Internal Control, the IGF will certify the management accounts of each institution, prior to the accounts being sent on to the Tribunal.
10.10 Include in the legislation the amount below which prior TA approval of contracts is not required.	TA and IGF			Completed. The annual base amount is defined in the budget law, above which prior approval from the TA is needed. The current amount is MZN 5 million, and the supplier has to be registered in the single registry for contractors for public works, suppliers of goods and providers of services. Applies the legal provisions enshrined, bearing in mind the ceiling established in the budget law, which is seven million at present. The Tribunal informed the mission that the ceiling remains at MZN 5 million.
10.11 Eliminate the requirement for prior approval from the TA for the hiring of staff.	TA			Partial establishment. Approval is no longer necessary for procedures for progression up the career ladder. The Tribunal does not consider that it is the right time to relax this requirement. In its opinion, the quality of control, and the number of errors and irregularities, do not allow for a more lenient approach.
11. Other State Entities				
11.1 Strengthen the regulatory framework of the public enterprise sector, so as to clarify oversight by the Treasury.	DNT			Completed. The law already defines oversight by the Treasury. The respective regulation is being harmonized, and will be submitted for approval by the Council of Ministers, before the end of the first half of this year.
11.2 Draw up a manual for definition of the scope of the public sector balance sheet, in line with best practices.	DNT, DNCP and IGEPE	2013	Medium	Will be included in the reform of public accounts, which will consider the components of the public sector that are to be consolidated. IGEPE is working to produce a consolidated account of the equity holdings of the state that are supervised by it. The Office of Research, Planning and International Cooperation is also thinking about how to present and promote the state's interests, in its collaborations with the private sector.

Recommendation	Unit Responsible	Timetable	Priority	Current Situation/Position of the Authorities
11.3 Prepare and disseminate a financial position of the public enterprise sector, covering public enterprises, publicly owned corporations, and equity holdings by the state in private enterprises.	DNT, DNCP and IGEPE	2013	Medium	Not implemented. The DNT monitors the economic and financial status of each one of the fourteen public enterprises, the IGEPE manages the portfolio of equity holdings by the state, made up of 117 companies, and the DEAE undertakes monitoring of the public-private partnerships (PPPs) and public concessions. But these overseeing bodies do not always receive the necessary information from the entities in a timely fashion, and the central government does not yet consolidate the fiscal risk issues into an annual report. Information is likewise missing in the MTEF, on fiscal risks and contingent liabilities. In order to improve internal control, the IGEPE is developing a system for monitoring and evaluation of performance, with a pilot phase in five firms with equity holdings by the state, which could be expanded to include the public enterprises.
11.4 Strengthen the regulatory framework for the institutions that are autonomous from the state, in order to clarify oversight by the Treasury.	DNT and IGEPE	2012	Medium	Under way. A proposal is in the harmonization process for legislation on institutes and public funds. It will be submitted for the approval of the Council of Ministers, before the end of the first half of this year.
11.5 Assess the risks of the decentralization process and coordination mechanisms.	MAE, MPD, MF and all of the line ministries	2013	Medium	Not implemented. The government has shown interest in assessing the risks from the decentralization process, and of the current coordination mechanisms. The DNO will coordinate the process of contracting a consultancy. ARITAC Sul has already communicated that it could support in this process.
11.6 Strengthen the formal legal framework for specification of the separation of responsibilities between DNO and DNP for preparation of the budget.	DNO and DNP			Within the context of the drawing up of the MTEF, certain responsibilities were defined for each one of the parties, specifically in relation to operations and investment. The mission recommends a full review as to the proper employment of economic expenditure headings, with the institution of a clear separation of responsibilities between DNP and DNO for the preparation of the planning and budget documents.
11.7 Create an ongoing dissemination program on the budget cycle, using various forms of teaching, including at a distance, for users who execute within e-SISTAFE, and public managers, donors and citizens.	DNT, DNO and CEDSIF	2011	Medium	Under way. Talks have been held at the Norwegian Embassy, with attendance by partners from the SISTAFE Pool Fund and from the CTA (Confederation of Business Associations of Mozambique), for journalists, the Office of the Attorney-General of the Republic (PGR), and the partners of the Ministry of Health (MISAU), with a view to making known the importance and advantages of SISTAFE use. As well, a talk was held on the Large Suppliers functionality, with attendance by representatives of the companies Mozambique Telecommunications (TDM) and Mozambique Electricity (EDM), with a view to making known the importance of use of this functionality, and its advantages in the identification and systematic obtaining of information from e-SISTAFE, making it possible to monitor and oversee payment for their supplies. A capacity-building activity was likewise carried out, on the extraction of charts from the management account within e-SISTAFE, following a prior presentation made to the Administrative Tribunal. The e-Taxation training teams are already in the field, and synergies will emerge that are very favorable to e-SISTAFE as a whole.

Recommendation	Unit Responsible	Timetable	Priority	Current Situation/Position of the Authorities
12. Sustainability and strengthening of e-SISTAFE				
12.1 Draw up a strategic plan for IT, aligned with the document “Vision for Public Finance, 2011–2025” and updated on an ongoing basis.	CEDSIF	2012	High	Under way. This recommendation remains, since no significant development has been recorded in putting it into practice, given that it involves a responsibility of the recently created committees, within the framework of the CEDSIF Rules of Procedure.
12.2 Prepare a tactical IT plan based on the description of the implementation of the strategic plan.	CEDSIF	2012	High	Under way. This recommendation remains, since no significant development has been recorded in putting it into practice, given that it involves a responsibility of the recently created committees, within the framework of the CEDSIF Rules of Procedure.
12.3 Adopt a best practices framework for IT governance, and adhere to the standards and rules.	CEDSIF	2013	High	Under way. An ongoing improvement has been implemented in the processes of development and delivery of IT services (for systems developed in-house) and of certification of systems (for systems developed through outsourcing), activities with involvement by the Quality and Certification Service (SQC), the Operations Service (SO) and the Development Service (SSD). These three branches pushed forward development of the governance practices of the ICTs within CEDSIF, so that they adhere more and more to the best practices described in the ITIL and CMMI reference models. Along these lines, the “Software Quality Plan” has been drawn up, along with the Catalog of ICT Services.
12.4 CEDSIF should step up its efforts to map all the IT systems being used by entities that perform budget and financial execution and control actions, so as to facilitate communications between e-SISTAFE and those systems and thus prevent the duplication of entries and the risk of information incompatibility. Implement a functionality to import and export data into and from e-SISTAFE.	CEDSIF, in coordination with the sectors.	2013	High	Completed. The development of the e-SISTAFE architecture into a Services-Oriented Architecture (SOA) is moving along, with good results. See Appendix 1 – Software Architecture Document; MPE (State Assets Module), CBSO (Catalog of Goods and Services) and CEF (Catalog of Companies and Suppliers).
12.5 Develop the conceptual models of the large systems represented by e-Payroll, e-Taxation, e-Assets, and the Human Resource Management System (SGRH).	CEDSIF			Completed. The conceptual models for the large systems that make up e-SISTAFE were developed in considerable detail, with big development thus being recorded in this area.
12.6 Logical Data Model	CEDSIF	2013	High	Under way. The existence of this model, and the production of the documentation associated with it, constitute an assurance that the government knows where and how its data are stored, conferring on it complete autonomy for production of the Information Management module (BI - Business Intelligence).
12.7 Develop rules for inclusion within e-SISTAFE	CEDSIF	2013	High	Completed. The redesign of the e-SISTAFE architecture is progressing rapidly and smoothly (see Appendix 1 of the report).
12.8 Develop rules for interoperability with e-SISTAFE	CEDSIF	2013	High	Completed. The redesign of the e-SISTAFE architecture is happening at a good pace, and without experiencing hiccups (see Appendix 1 of the report).

Recommendation	Unit Responsible	Timetable	Priority	Current Situation/Position of the Authorities
12.9 Undertake database administration with the objective of ensuring proper performance and security for the systems.	CEDSIF			Completed. No problems have been registered with performance and security with the coming into operation of the Exadata equipment, and the security of the systems is assured at a good level, by the Quality and Certification Service and by the Information Systems Security Service.

I. INTRODUCTION

1. The purpose of this report is to monitor implementation of the public finance reforms in Mozambique. Thus, several of the concepts and discussions addressed in the previous reports will not be repeated in this document. It is recommended that the reading of this report be undertaken with the 2010, 2011 and 2012 reports as its main support documents.
2. The matrix of recommendations outlines the set of recommendations made over the last three years, and that are still awaiting full or partial implementation. We have kept the information related to the already implemented recommendations, in order to be able to get an overall view of actions carried out.
3. The main recommendations were discussed in detail with the authorities, mainly the new recommendations.

II. BUDGET, FINANCIAL AND ACCOUNTING EXECUTION

A. Planning and Budget

The Plans and the Program Structure

4. **Despite the existence of various planning instruments in Mozambique,² increased relevance for the Five-Year Government Plan (PQG) can be envisaged in the planning of public expenditure.** The PQG that is in effect, drawn up in 2009 for the period from 2010 to 2014, presents a series of government objectives, together with a list of sectoral activities to be undertaken. Since the state budget (OE) follows a different logic of presentation, based on the organic classification, there is no satisfactory program integration between those instruments of public administration.³
5. **For the new PQG in reference to the period 2015–2019, to be drawn up in the coming year, the government’s intention is that along with it a new program structure get introduced in the public service of Mozambique.** The idea prevails within the Ministry of Planning and Development (MPD), that in order to address the task of conceiving of the new programs, the teams from the National Planning Directorate (DNP) and the National Budget Directorate (DNO) should initiate a joint discussion, sector by sector, of the new

² Vision 2025, Millennium Development Goals (MDGs), the Five-Year Government Plan (PQG), Poverty Reduction Action Plan (PARPA), Medium-Term Expenditure Framework (MTEF) and Economic and Social Plan (PES), in addition to sectoral and local plans.

³ The PQG and PES do not adopt a program structure, since they only present objectives and/or a list of actions, without explicit association between one and the other.

program structure to be adopted in the 2015–2019 PQG later this half-year (following finalizing of the 2014–2016 MTEF). The sectoral objectives as such of the PQG that is in effect, with which the Mozambican public service is quite familiar, and that were at the origin of the programs being used at present within the MTEF, may serve as a basis for the commencement of discussions on the new programs (with due caution in order to avoid impeding discussion). In any event, the programs and measures (or subprograms) designed in this fashion should eventually make provision for operating and investment costs, and physical targets and indicators of outcomes ought to be present in all of them.⁴

6. **Subsequently, when the directorates arrive by common agreement at a proposal, the DNP schedules a discussion on the matter with each line ministry.** It is desirable that as soon as the DNP and DNO begin their work of joint discussion, the line ministries get warned of the review under way, in order that they themselves have time to promote internal discussions, and to define their own visions of which program structure best addresses the needs of the sector. The establishment of a schedule of meetings, covering the stage of discussions both between the DNP and the DNO, as well as afterward, between those directorates and each sectoral entity, would help the work to go well.

7. **Meanwhile, in order to ensure that the lengthy and arduous process can be productive, the government could consider hiring an outside facilitator, who would lead the meetings and would be seen as neutral by the participants.** Experiences from other countries demonstrate that throughout the course of this whole discussion, heated debates are sure to take place on the topic amongst all of the parties involved. A facilitator would help the participants to yield to arguments that are contrary to theirs, and to understand that this involves something built jointly, with no attempt by the strongest party to dominate the weakest ones. If a program structure were to be imposed by the supervisory bodies, the consequence would be the withdrawal and lack of interest in reform on the part of the line ministries, subsequently generating much greater difficulty in implementation and execution of the programming within the new structure. The final result of the new program structure will be that much better, the more it is accepted by all parties.

8. **Once the process of conceiving of the new program structure has been completed, the programs (and subprograms) defined in this way shall make up the link between programming and budgeting.** To that end, it is necessary that the new PQG, the new MTEFs and the OEs use the same program structure (the traditional objectives of the PQG would be expressed within each program). The system of program headings should gradually take on a central role in the processes of planning and budgeting of the whole of

⁴ The current programs only consider investment expenditure, with the exception of those within the ambit of the Ministry of Education and of the Ministry of Women and Social Welfare, which now also have operational costs. Moreover, there is a specific program for the operation of the state apparatus, cross-cutting to all of the organic units, and one for each District (organic criterion).

public expenditure.⁵ Only in this way will it be possible to make out, through budget execution, the degree of effective implementation of the public policies proposed in the planning instruments, as well as fulfillment of the physical targets and outcomes sought in those instruments.

9. **Unlike in the previous PQGs, the new 2010–2014 PQG should be designed while having due regard for the fiscal capacity of the state, which would benchmark the intended activities, adjusting them to a practicable economic scenario.** In the way that the PQG has been prepared, with no financial restrictions, a departure of the plan takes place in relation to the concrete possibilities of the aggregate expenditure defined year-on-year in the Medium-Term Expenditure Framework (MTEF). Accordingly, the PQG ceases to fulfill its primary function of allocating expenditure between government sectors. In this regard, the new PQG could benefit from expansion of the timeline of the MTEF from the current three years, to five fiscal years.

The Medium-Term Expenditure Framework

10. **According to Decree 23/2004, which establishes regulations for Law^o09/2002 (SISTAFE Law), the MTEF is a conditioning element in the process of preparing the State Budget and the Economic and Social Plan.**⁶ The MTEF includes the state's revenues and expenditures, indicating the fiscal result by fiscal year, and how the respective deficit will be financed. An agreed order, signed by the MPD and supported by the MF, defines the methodology for drawing up the MTEF.⁷ An internal timeline disciplines progress in the work of preparation of the MTEF, which is approved by Decree of the Council of Ministers, without the need for approval by Parliament.

11. **Each year, the preparation of a new MTEF introduces gains in relation to the foregoing MTEF.** The MTEF that is in effect at present, for the period from 2013 to 2015, establishes overall limits by sector, with this being an advance in relation to the previous ones, which only considered the economic classification of the expenditure. A reserve is found in the MTEF for general expenditures, which takes into consideration specificities in the fiscal year, like for example the holding of the elections in 2014. The 2013–2014 MTEF

⁵ Parliament itself is already requesting reports on budget execution by program.

⁶ The same Decree defines the Medium-Term Expenditure Framework as being the basic instrument in the planning and management of financial resources, the objectives of which are to present the government's medium-term policy options, establish the forecast for resources available to finance public expenditure, and establish a consistent link between the government's objectives and priorities, and use of resources within the state budget.

⁷ Available at http://www.mpd.gov.mz/index.php?option=com_docman&task=doc_details&Itemid=50&gid=322&lang=pt.

also adopts the hypothesis of real growth in revenue of five percent per year, in line with the target established in the PQG.

12. **The new MTEF, for the period from 2014 to 2016, is in the final preparatory phase, and should be ready later in the month of May.** The DNP tries to help the line ministries to fill in the prevailing lack of program targets and indicators, in the new MTEF,⁸ For central level the 2014–2016 MTEF will have charts establishing ceilings by sector, disaggregating staff into two subceilings. For the provinces there will be different limits for staff, operations, transfers and investments, while for the districts as a whole there will be one single aggregate limit. The limits by Receiving Management Unit (UGB) for the first year of the MTEF will be subsequently defined by the DNP, and sent on to the DNO for incorporation into the system. The 2014–2016 MTEF will retain in its estimates the target found in the PQG, of real growth in revenue of five percent per year, even in the face of the failure observed in recent years to fulfill that target. As noted above, extension of the MTEF reference period from three to five fiscal years would help in the preparation of a more realistic PQG.

13. **Meanwhile, some shortcomings in the MTEF still need to be corrected.** The absence of key features such as physical targets or performance indicators in the greater part of the programs is to be corrected only starting with the 2014–2016 MTEF.⁹ Based on the trend – observed on previous occasions – for the Council of Ministers to always opt for the highest ceilings, the MTEF is no longer prepared with alternative economic scenarios. The MTEF does not present expanding reserves over the years to compensate for the increased uncertainty due to drift over time, both as to changes in public policies as well as to the economic parameters adopted, nor an analysis of the fiscal risks that threaten the sustainability of public finances. Moreover, explanations are not yet present in the subsequent MTEFs, as to the reasons for the changes observed in the ceilings in reference to a given fiscal year.

Budget Preparation

14. **The Budget Preparation Module (MEO) of e-SISTAFE has been regularly refined, with the incorporation of new functionalities, making the work of budget preparation much less laborious than before.** Since 2008 the entry of the sectoral proposals for revenues and expenses happens directly at the e-SISTAFE terminals spread

⁸ In a recent survey, the DNP found that basic elements are missing in close to seventy percent of the programs found in the current MTEF, such as physical targets or performance indicators.

⁹ Given that the deadline is short for inclusion of targets and indicators in the upcoming MTEF (April 19) and the PQG already comes to an end in 2014, the efforts of the DNP will be concentrated on the development of a new program structure as such for the PQG in reference to the 2015–2019 period.

amongst the UGBs throughout the country; there is no paper process. The users have a particular point in time to access the system, called a “round”, which reflects the time reserved by the budget preparation calendar for each kind of user (from the entities, from the line ministries or from the central body), with access remaining blocked to the other users. Thus, since it is used in an optimal way, undue interference is avoided from one kind of user in the work of the others, and greater security is obtained in regard to data entry.

15. **Meanwhile, certain difficulties persist in regard to the exchange of information between the MEO and the MEX, the e-SISTAFE execution module.**¹⁰ The exchange of files between the modules does not yet occur in a fully automated way, but rather requires application of a conversion table (“from/to”), bearing in mind the coding processes adopted for the budgetary headings system. For example, external financing received in the middle of the fiscal year is registered by keying into the MEO, which generates a code for the project. Afterward the project’s data are printed out, in order that they may also be manually loaded into the MEX, which requires checking work and subjects the process of registration of a new heading in the OE to human keying error.

16. **The sectoral proposals may not exceed the expenditure ceilings by group that are set out in the Budget Notice Circular.**¹¹ Meanwhile, at the same time that it blocks attempts to exceed the ceilings, the MEO allows the line ministries to indicate requests exceeding the ceilings, as long as they are accompanied by rationales. At central level the ceilings continue to be established by UGB. For the provinces, if previously the DNP/DNO established the ceilings broken down by provincial organic unit, today they do it in a unified way, which permits greater autonomy in the allocation of resources to those entities.¹² As to the districts, resources are distributed between them based on a specific formula that takes into consideration economic and social indicators, with them being allocated in a single allotment at the district office corresponding to each of them.

17. **Unlike the OEs in previous years, the charts present in the 2013 OE were drawn up at a more aggregate level of the economic classification of expenditure.** There thus ceases to be a gap between budget allocation, previously detailed generally up to level 5 or 6 of the economic classification of the expenditure (depending on the heading), and the phase

¹⁰ This does not constitute a problem, given that the language adopted in the planning needs to be better integrated with the language adopted in the budgeting, but while the MEO incorporates the headings of the planning system (as the objectives and actions for the PQG), the MEX only uses the sectoral programs.

¹¹ In spite of the legislation providing that the MPD should sign the Budget Circular Notice and send it on to the line ministries, customarily this task has been undertaken by the MF.

¹² Some provinces are still adapting themselves to that new situation, and there are frequent complaints from provincial sectors that they consider themselves to be disadvantaged by the resource distribution undertaken by the local authority.

of commitment (*cabimentação*) in the MEX, which occurs at a level of aggregation corresponding to level 4 or 5 of the system of economic classification of the expenditure (depending on the heading). This partially remedies a distortion and fruitless planning effort, given that a more natural approach would be for the charts present in the appendices to the Budget Law to be aggregated at a level higher than the level used for commitment.

18. **For the process of drawing up of the 2014 OE, the DNO looks to break down the planning ceiling for staff expenditures of the line ministries into two parts.** Today the DNO works on a dual track, since it needs to review a good part of the sectoral proposals to the OE for staff expenditure, given that the latter usually put the emphasis on the heading of “Other Staff Expenses”, to the detriment of the programming for “Salaries and Remuneration”. This practice, typically referred to as “Priority Investment”, gets justified from the point of view of the line ministries, due to the certainty that any budget shortfall under the heading “Salaries and Remuneration” will be resolved by the MF during execution of the OE, bearing in mind the rigid nature of that expenditure.

19. **The DNP and DNO teams have been working together in a cooperative way, but the impression remains that there persists an inadequate division of tasks and responsibilities between those directorates.** Apparently the directorates get along well, because of the division between each one’s area of jurisdiction, with the DNO taking care of “operational” expenditure and the DNP the “investment” expenditure.¹³ But, more seriously than that, there is a conceptual confusion as regards the significance of the terms “operations” and “investment”. The latter appears to refer to what typically should be called projects, while the former has characteristics which in the international literature would be described as activities. As backup for this assertion, it is clear from the Budget Execution Report (REO) that a significant amount of capital expenditure exists under the category of “operations”, as well as amounts that are expressive of current expenditure, under the category of “investments”. Thus, despite making up one single document, in practice two parallel budgets get developed, complete in themselves (both with staff expenditure, other current expenditure and capital expenditure), each of which is overseen by one of the directorates. Such dual performance of the processes of preparation of plans, scenarios and budgets inevitably ends up generating a fragmented vision of the state’s needs, with a loss of overall vision as to how public resources ought to be allocated. The ideal division of responsibilities between the DNP and the DNO would be that the first take sole care of preparation of the medium-term plans (PQG and MTEF), and the second were the sole entity responsible for preparation of the OE.

¹³ The mission was informed that nearly all the budget proposal harmonization meetings, in which the planning ceilings established for the line ministries are revised, normally downward, occur with the effective participation of technical staff from the two teams.

20. **Despite the positive effects of MF Circular 1/2010, which requires the collection of all own-generated revenues by the organic units, the government admits that one-off cases still exist of own-generated revenues outside of the OE.** MF Circular 1/2010 stipulated collection – with a certain time limit for classification of own-generated revenues – and permitted there to be recording in the OE during budget execution. Moreover, in budget preparation DNP/DNO came to exclude internal revenue from the ceiling for sectoral programming, avoiding the common practice on the part of the organic units of hiding their own-generated revenues in order to receive more resources from the state.¹⁴ The effects of those two measures may be measured by the growth in recent years in collection of own-generated revenues, situated above average growth in other revenues.

21. **The government relies as well on the effects of two more measures to clear up once and for all the situation of own-generated revenues.** The first is introduction of the e-Taxation module in e-SISTAFE, which will permit the collection of already-classified revenues,¹⁵ directly from the taxpayer to the Single Treasury Account (CUT). The second is approval of the Notice from the Governor of the Bank of Mozambique setting out regulations for the Ministerial Order establishing the ownership of the bank accounts of the government bodies, and setting a rule for those revenue-type accounts, pursuant to which the commercial banks shall be required to prevent such accounts from being used for transactions unrelated to the purpose of collecting revenue for the CUT.

22. **As to earmarked revenues, which in certain cases are generating idle resources, there are no plans to review the legislation that lies at their origin, so as to reduce them or even eliminate them.** The government intends to improve the collection of those revenues (in line with the foregoing paragraph) and the capacity to monitor them. To that end, a submodule will be introduced in e-SISTAFE, linked to the MEO, that will allow the UGBs to manage those resources more efficiently (while obeying legislative constraints). Based on a joint study carried out with the DNO, the DNT found that there are no concerns as regards undue caution in the use of the earmarked revenue, since the accrual balances on the CUT are insignificant. Meanwhile, an example of the idleness mentioned is in the transport sector, which receives an earmarked portion of the tax on fuels, but fails to make full use of it.

23. **Within the constitutional framework, the SISTAFE Law determines that there be repetition of the OE from the previous year, if the OE proposal has not been approved by the beginning of the fiscal year.** The SISTAFE Law (Article 27) adds that this has involves the foregoing OE, with the inclusion of the adjustments processed throughout

¹⁴ The change had as its rationale the results of a study conducted jointly by the DNO and by the Revenue Authority, in order to try to identify the reasons for the noncollection of internal revenues.

¹⁵ The DNO has worked jointly with the Revenue Authority and the CEDSIF on the definition of a new economic classification of revenues, which is to be adopted in e-Taxation.

the fiscal year, and limits interim execution to monthly one-twelfth parts for all expenditure. International experience demonstrates that, depending on the intended objectives, there are advantages and disadvantages in repeating the OE from the previous fiscal year, in comparison to the alternative of it being used as a basis for the proposed OE under discussion in the Legislature, as well as in the various arrangements for blocking of or permission for interim execution of the investments (and even operational expenditure). Accordingly, the mission will not recommend any measure as to the adoption of alterations in those procedures, due to being of its understanding that it is up to the government to find the practice that is best adapted to local realities.

Recommendations

- Regarding the arduous and lengthy task of developing a new program structure for the upcoming PQG: establish a formally agreed calendar of discussions between the MPD and the MF, as well as contracting an outside facilitator whose neutrality could help in making the work go smoothly.
- Review the current framing of expenditure within the headings of “operations” and “investment”, coming to use the conceptual definitions and respective framing of expenditure in line with international standards.
- Alter the responsibilities of the DNP and DNO, such that one of them takes full care of preparation of the medium-term documents, namely the PQG and MTEF, while the other has exclusive responsibility in the preparation of the OE.
- Incorporate two more fiscal years into the timeline of the next MTEFs, in such a way as to fully cover the period of five years adopted in the PQG, as well as including expanding reserves over the years, to compensate for the natural increase in uncertainty arising from drift over time.
- Include more in-depth explanations in the next MTEFs as to the reasons for the changes noted in the amounts of the ceilings found in previous MTEFs, in relation to the same fiscal year.
- Find solutions to eliminate any and all exchange of files between the MEO and MEX modules of e-SISTAFE, that does not occur in a totally automated way, with no human intervention.

B. Budget and Financial Execution

Budget Execution

24. **In 2012 e-SISTAFE rollout to new UGBs exceeded the target established, but followed a pattern influenced more by endogenous issues than by hierarchical factors.**¹⁶

In 2012, the incorporation of 106 new UGBs into e-SISTAFE surpassed the target set in the SISTAFE Action Plan for 2010–2015, which envisages the incorporation of seventy UGBs per year. Meanwhile, that incorporation did not necessarily follow the initial forecast, i.e., that priority would be given to the UGBs of the provincial and subsequently district entities. In the expansion, what prevailed was servicing by the UGBs of endogenous requirements (whichever they might be), that the entity had at a minimum ten staff members (in order to make possible the segregation of duties of the participants), and that its budget corresponded to at least double that which it is expected be spent on maintenance of the system (in order that additional costs could be addressed, like telephones and equipment maintenance).¹⁷

25. **Following the Action Plan for SISTAFE Reform for 2010–2015, the Commitment and Validation Notes will come to incorporate information on the respective contracts that originated them.** For implementation of the new system, functionality was designed in MEX for recording of information related to the contract, to the legal framework, to the form of contracting, to the contract value, and to the respective forms of payment, at the time of commitment and validation of public expenditure.

26. **Further in line with the Action Plan for SISTAFE Reform for 2010–2015, a new system is in the implementation phase for planning of Treasury budget and financial execution.** Despite its nature and purpose being completely different, up until recently the limit for commitment of expenditures by the UGBs followed the same standard as the payment limits defined by the financial quotas, which is to say in both cases one worked with a one-month timeline. Now, following the Action Plan for SISTAFE Reform for 2010–2015, that brake to commitment is being eliminated, for the time being as a pilot in a few areas, and shortly for the rest of the bodies. Thus, in the event that the MF deems it pertinent, the UGBs will be free to appropriate the whole of the amount expected for the fiscal year, in line with international best practices.

27. **In spite of the constraints on commitment having already been eliminated in e-SISTAFE, due to the lack of dissemination, the UGBs continue to implement**

¹⁶ The government seeks to soon develop the conceptual model for the municipal e-SISTAFE (for use by the municipalities in the future), starting from which it will be decided whether a new system gets adopted, or whether it will be sufficient to develop of a new module within e-SISTAFE.

¹⁷ Some of those new UGBs incorporated acquired the infrastructure with their own resources.

expenditure commitments within the old system. A 2012 study concerning the quality of e-SISTAFE use revealed that a good part of the budget and financial officers are failing to adhere to the sequence and priority of the phases for carrying out of the expenditure. Often commitment, validation, and payment occur at almost the same time, based on the pro-forma invoice.¹⁸

28. One of the reasons for requiring commitment of expenditures prior to their payment, is to allow the state to control the expenditure at the time at which the commitments are generated. In limiting commitment to the time horizon of one month, in theory the current system prevents the assumption of commitments in advance by the entities, thus withholding information that is essential for the Treasury, which—given the pace of acceptance of new obligations by the UGBs—would provide a sounder basis for its decisions as to the limits of commitment and payment. Moreover, it does not allow the state to learn precisely the quantity of firm commitments already accumulated as of each moment in the fiscal year. Such information could and should be used by the DNP/DNO to identify sectors that are under most pressure as to their budget limits, and starting from a specific evaluation, case by case, draw conclusions as to the needs for supplementation in the fiscal year under way, and likewise as to the subsequent fiscal year.

29. The Budget Execution Report (REO) provides quite a lot of information, both explanatory as well as numerical, but it could be improved to include charts presenting the phases of budget execution of expenditures. Today the charts that are to be found in the REO only provide information on budgetary alterations and financial execution, comparing the initial commitment with the updated allotment and financial performance. Monitoring by bodies external to the government, like the Parliament, would be better served if columns were included in the charts to show the phases of budget execution, namely commitment and validation. The government informed the mission that already in the upcoming REO, columns will be present with such information, in reference to the first quarter of 2013.

Financial Planning and Treasury

30. The government's financial planning seeks to limit the recording of budget execution in e-SISTAFE to available cash, but this does not contribute to a modern and efficient cash management. This situation has been analyzed in detail in the IMF technical assistance report drawn up by AFRITAC Sul in August 2012. The main findings were as follows:

¹⁸ Often the invoices are not even filed properly, which makes it impossible to verify compliance in the expenditure validations carried out.

- Annual financial planning¹⁹ is undertaken by the DNT with minimal involvement of the line ministries, due to the low capacity to draw up expenditure forecasts. This planning is undertaken outside of e-SISTAFE, and is not subject to monitoring throughout the financial year.
- Financial planning in the course of the fiscal year²⁰ is carried out over a time horizon of one month. The units are to record in e-SISTAFE the weekly timeline of the financial resources that they are programming at the end of the month N, for month N+1. Based on this request, the DNT authorizes one single budget allocation and payment limit, which is withdrawn in the event of not being used within the time limit specified. This practice leads the units to execute the first phases of the expenditure outside of the system, with a lower level of security.²¹
- Information on DNT's weekly financial planning is passed on to the BM, but it is of little utility in management of monetary policy. Although a memorandum of understanding has been formalized between the MF and the BM to govern the exchange of information, and an inter-market committee is operating where financial programming gets shared, neither the DNT nor the BM has precise information as to the government's scheduled payments, so as to foresee daily liquidity needs.²²

31. **The vision for financial planning should gradually expand.** The initial annual planning has to be updated over the length of the financial year, with information from the budget and financial execution already carried out, and the necessary adjustments in the forecasts. It also has to be integrated into e-SISTAFE, and contain more detailed information supported in proposals made by the units. The DNT initiated the process of updating of the annual planning, and along with the CEDSIF is developing the functionality for annual financial planning converted to a monthly basis within e-SISTAFE. The rolling monthly financial planning should accompany this process, and progressively expand to a quarterly

¹⁹ Cash Budget.

²⁰ Cash Plan.

²¹ It is only after having received the appropriation limit that the units may begin expenditure, but the system (MEX module) does not yet allow recording of the initial phase of budget appropriation at a suitable level of disaggregation of the expenditure (this will be resolved with the asset module that is in development). In order not to forfeit the financial resources released by Treasury, the units have an interest in validating and carrying out the payments within the week they are requested, which is generally the first week of the month. Thus, in practice the units begin the execution process outside of e-SISTAFE, and the system does not record the actual points in the phases of appropriation and validation.

²² Once the units receive the financial limit from the DNT, they are responsible for carrying out their payments, activating the CUT via e-SISTAFE.

time frame. The amounts found in these instruments, and in others that may be developed in the medium term, may act to establish the financial quotas over the length of the financial year, thus delinking the various moments in the expenditure phase and improving the levels of security in execution.

32. **The financial planning for the financial year should contribute to monitoring of the government's targets.** It is important to define in a clear way what the targets will be that are to be monitored by means of the financial planning for the financial year. Like for example: ensuring execution of the allotments of the budget law, ensuring that there are no payables, and monitoring the impact of the budget on monetary policy.

33. **The CUT is used in the effective electronic transfer of financial resources, both in revenue collection as well as in the payment of expenditures.** Transactions are made on the CUT by the UGEs; it is managed by the DNT and administrated by the BM. The rules for making transactions on the CUT in each one of the currencies are clear and well known by the financial system, with the rejection level considered to be insignificant. Only a few adjustments are lacking in order to ensure the integrated management of the CUT in national and foreign currency (CUT-MN and CUT-ME). It for example hinders conversion via the CUT of hard currency from meticaís, and obliges users to make payment for the servicing of the foreign debt by means of funds advanced via a management account. Also missing is the automation of the transfer to the CUT of the balances on the revenue accounts, so as to return the accounts to zero each day.

34. **The CUT contributes to increasing the level of security in payment of operations through e-SISTAFE.** When the payments are carried out by the direct route, the CUT is debited, in order to credit the account of the final beneficiary, with no need to transfer the funds to an off-CUT account in order to make the payments. This permits the carrying out of automated controls that reinforce the quality of the management. In recent years, use of the direct route in payments has been increasing (53 percent in relation to the total expenditure executed in 2012), albeit more slowly than initially planned. In relation to the external financing for budget support, pool funds and projects, the share of disbursements that passed through the CUT in 2012 (55 percent) has diminished slightly in relation to the previous year (56 percent).

35. **There are still thousands of off-CUT accounts, that make consolidation of the state's financial availability difficult.** Many of the off-CUT accounts are opened on the BM, and others are on commercial banks. There has been an effort to reduce the number of off-CUT accounts, so that what remain are only those needed for revenue collection as such, and for administration of working capital funds, accounts of organs of state sovereignty and security, and projects with external financing. The previous mission (April 2012) estimated the off-CUT expenditure accounts at roughly 4,300, and the off-CUT revenue accounts with balances at more than 2,000. In the course of the last year, the DNT closed 146 and

authorized 68 expenditure accounts. There is a direct relationship between e-SISTAFE and e-Payroll rollout, and the reduction in the number of bank accounts of the line ministries on the commercial banks. Despite these efforts, there is estimated to be an increase in off-CUT accounts, due mainly to new accounts created by the institutions without the authorization and knowledge of the Treasury.²³ In the current situation, daily consolidation of the state's financial availability becomes impossible, given that the DNT has no access to the daily statements of the accounts on the commercial banks.

36. **Improvement of CUT should be a priority.** It is important to finalize as soon as possible the Ministerial Order for classification of the accounts, which has been in preparation process since last year, and ensure proper harmonization with the BM in order for it to be complemented through a Governor's Notice on this specific subject, so as to make these measures binding as well for the commercial banks. With this action under way one looks to classify the off-CUT accounts by type of account, approve rules for exceptions to the CUT, and identify a strategy for closing the rest of the accounts. Another pending improvement is the publishing of disciplinary rules for the revenue accounts, and the development of systems to automate the transfer of the balances to the CUT, so as to return the accounts to zero each day. Measures are also under way, and should be improved, to harmonize the CUT procedures in national and foreign currency. It is important to approve a single legal order for integrated management of CUT-ME and CUT-MN, and finalize adjustment of the computer systems.

37. **Efforts should be continued to increase coverage of the CUT.** Particular attention should be given to the accounts created illegally by the entities, with the application of sanctions to discourage this practice. Information has been requested from the commercial banks regarding all of the public accounts (account holders, account balance and most recent transactions), with a view to undertaking a filtering of the accounts to be closed.²⁴ Actions should also be pursued to encourage transfers to the CUT of the resources of the decentralized management units, and of the resources coming from external financing for the entities that execute in e-SISTAFE. Table 2 presents the trend in the main e-SISTAFE indicators.

²³ Authorization is necessary from the DNT for the opening of any public account.

²⁴ According to the legislation in effect, closing of the accounts may be carried out after a period of 60 days with no transactions.

Table 2. Performance indicators for evaluation of the public finance management reform process

Indicator		2007	2008	2009	2010	2011	2012
Budget preparation and execution	Percentage of revenue not included in the government budget	ND	ND	ND	ND	ND	
	Percentage of expenditure not included in the government budget	ND	ND	ND	ND	ND	
	Number of executing units using e-SISTAFE for budget preparation and execution, out of a total of 983	12	301	320	438	504	
Financial execution	Percentage of expenditure executed directly through the CUT	11.49%	23.61%	31.40%	37.55%	42.22%	
	Number of bank accounts maintained by public entities outside the CUT	6,428	5,438	5,433	4,390	4,028	
	Number of funds of donors making payments abroad through the CUT-ME	1	1	-	6	13	
	Number of funds of donors using the CUT-ME			1	13	13	
	Balance of the CUT at year-end (thousands of meticaís)	2,009,463	2,808,995	4,195,992	5,632,264	10,932,524.48	
	Total value of treasury bills issued (90-day securities) in million MZN	-	-	-	20,000,000.00	21,500,000.00	
e-SISTAFE	Number of entities that completed the e-SISTAFE rollout	245	301	320	438	504	
	Number of responses to e-SISTAFE users via service desk (per day)	13	26	39	20	NA	
	Number of line ministries using the sectional classification	0	1	1	0	0	
	Number of active e-SISTAFE users	4,463	4,074	4,173	6,478	10,004	
	Percentage of wage expenditure executed directly	2.73%	2.75%	3.47%	8.60%	15.77%	
	Percentage of pension expenditure executed directly	0%	0.88%	0.30%	0.30%	0.29%	

Source: CEDSIF

38. **All revenues should be transferred to the CUT as soon as they have been classified.** Revenues coming from the sale of equity holdings in extractive businesses should not constitute an exception, although the sums collected are high in relation to the budget. The legislation currently in force makes provision for appropriate rules for their use, allowing the executive to use surpluses from collection for addressing debt and investment expenditures, as well as the possibility of proposing a budget review to the legislature in order to authorize other kinds of expenditures.

Public Enterprises

39. **The new regulatory framework for public enterprises clarifies financial oversight by the DNT.** At present there are fourteen public enterprises (with own capital or that from other public entities), seven of which receive some financing from the OE (Table 3). In 2011, nine of the thirteen companies that existed at that time had negative returns. These entities enjoy autonomy in administrative, financial and asset terms, but require authorization from the MF to take on debt, and are subject to financial oversight. The new legal framework strengthens the management instruments, by means of the creation of performance contracts and the obligation to provide management accounts by March 31, following financial year-end. The law specifies the reports and accounts that these entities are required to submit, as well as their obligations in terms of auditing and publication, but does not mention specific time limits. The law also envisages consolidation by the Ministry of Finance of the financial statements of the whole of the public enterprises, but this has not yet been done.

Table 3. Public enterprises – Cash profit/loss for 2011, and subsidies in the period 2011 to 2013

Nº	Empresas	Custos Totais em 2011	Receitas Totais em 2011	Resultados Líquidos em 2011	Subsídio ao Défice em 2011	Subsídio ao Défice em 2012	Subsídio ao Défice em 2013
1	Electricidade de Moçambique	6,783,937,370	7,352,388,971	637,523,110		0	0
2	Caminhos de Ferro de Moçambique	3,766,788,000	4,780,879,000	1,013,123,000		0	0
3	Aerportos de Moçambique	1,140,052,769	1,132,831,443	558,577,912		0	0
4	Televisão de Moçambique	332,889,587	120,439,036	232,145	179,210,831	258,345,298	228,983,225
5	Radio de Moçambique *	443,367,666	308,400,800	-71,812,601	236,336,610	266,830,520	302,005,867
6	Correios de Moçambique	125,852,876	122,557,210	-211,230		0	0
7	Transportes Públicos da Beira	144,982,916	96,578,060	-9,465,294	50,789,586	137,491,533	57,494,544
8	HICEP	47,529,910	34,697,538	-12,832,372	19,974,142	28,176,769	55,599,190
9	Maputo Sul	14,861,586	65,697	-13,750,032	60,000,000	7,486,252	8,085,153
10	Imprensa Nacional de Moçambique	83,644,070	69,897,780	-13,746,290	8,213,311	8,967,293	9,684,676
11	Regadio do Baixo Limpopo	16,372,195	12,365,804	-4,006,391	1,449,535	23,276,352	43,686,257
12	EMODRAGA	257,765,521	190,657,588	-79,837,308		0	0
13	Empresa Nacional de Hidrocarbonetos	75,769,355	14,955,426	-102,287,033		0	0
14	ENPCT **						

* - Dados previsionais

** - Empresa criada em 2012

Source: DNT

Total costs in 2011 Total revenues in 2011 Net profit/loss in 2011 Deficit subsidy in 2011
 Deficit subsidy in 2012 Deficit subsidy in 2013

Mozambique Electricity
 Mozambique Railways
 Mozambique Airports
 Mozambique Television
 Mozambique Radio
 Mozambique Post Office
 HICEP (Chókwè Water)
 Maputo Sul (Maputo-Katembe bridge)

Government Printing Office
 Lower Limpopo Irrigation
 EMODRAGA
 National Hydrocarbons Company
 ENPCT (Management of science and technology parks)

40. Supervision of aggregate fiscal risk in relation to the other public sector bodies is in need of improvement. The DNT monitors the economic and financial status of each one of the fourteen public enterprises, the IGEPE manages the state's portfolio of holdings, composed of 117 firms, and the DEAE undertakes monitoring of the public-private partnerships (PPPs) and of the public concessions. But these supervisory bodies do not always receive the necessary information from the bodies in a timely fashion, and the central government does not yet consolidate the fiscal risk issues into an annual report. As well, information is lacking in the MTEF on fiscal risks and contingent liabilities. The regulation is in process, for approval this year, of the new public enterprises law and the regulatory framework of the autonomous institutes and funds. In order to improve internal control, the IGEPE is developing a performance monitoring and evaluation system, with a pilot phase in five companies with state equity holdings, which could also be expanded to the public enterprises.

Financial decentralization

41. It would be interesting to evaluate the results of the financial decentralization process carried out in recent years. Since 2009, the powers of the districts have progressively increased, along with the budget expenditure executed at this level. This process has permitted greater involvement of the districts in budget management, but has raised problems such as the shortfall in financial resources, the need for monitoring on the part of the central bodies, and the need for additional training activities. It seems reasonable to carry out an assessment on the current situation of financial decentralization of revenues and expenses, and of the existing coordination mechanisms and risks associated with the decentralization process, so as to guide the upcoming stages.

Recommendations

- Confirm inclusion within the REO of charts demonstrating full budget execution, including the phases of commitment and validation of the expenditure.
- The DNP and DNO should get involved more in budget execution, as a way to seek more exact information on sectors that are under more pressure as to their budget limits, and thus take more qualified decisions as to the budget planning ceilings for the subsequent year.
- Ensure updating of the initial annual planning, and that to be covered in e-SISTAFE starting from 2014, with direct involvement of the executing units.

- Approve the Ministerial Order for classification of the accounts, the single Order for integrated management of the two CUT mechanisms, and the rules governing the revenue accounts.
- Carry on with the actions to increase the coverage of the CUT, and automate transfer of the balances on the revenue accounts at the end of the day.
- Finalize the regulatory framework for the public enterprises and autonomous institutes and funds, in the course of the financial year.
- Improve supervision of the aggregate fiscal risk of the public sector agencies, through implementation of a monitoring system, consolidation of the financial statements, and analysis of the fiscal risk in an annual government report, and inclusion of that risk in the MTEF.
- Assess the risks from the decentralization process and coordination mechanisms.

C. Accounting

42. **The reports of the previous missions carried out in March and September 2011 recommended improvements in the format and contents of the General Public Accounts (CGE),** within the context of a gradual transition to the International Public Sector Accounting Standards (IPSAS). The most recent report also recommended the introduction of those improvements, as part of a major reform addressing a number of issues in the area of public accounts.

43. **Following the most recent mission, the Government of Mozambique (GoM) contracted the consultants Ernst & Young (EY) to produce an action plan (AP) that would define the design, components, and timeline of such a reform.** The EY report recommended a reform in three phases, described in Table 4. EY was also contracted to carry on with this work, following a more detailed plan for implementation, developed and approved in December 2012.

Table 4. The phases of the reform of public accounts

Phase	Goal	Expected period
Phase 1 Short-term	ESTABLISHMENT OF ACCOUNTING STANDARDS AND TRAINING 1. Analysis of the current situation 2. Establishment of accounting standards 3. Initial training	2012 and 2013
Phase 2 Medium-term	ADAPTATION OF THE COMPUTER SYSTEMS AND PILOT IMPLEMENTATION 4. Drawing up of the business models for the functionalities of the computer systems, based on the accounting standards 5. Adjustment of the functionalities of the existing computer systems, and development of those new ones that are seen to be necessary for implementation of the accounting standards 6. Pilot implementation of the accounting standards	2014 to 2017
Phase 3 Long-term	CONSOLIDATION OF IMPLEMENTATION 7. Pursuit of adjustments in the functionalities of the computer systems 8. Pursuit of implementation of application of the accounting standards 9. Consolidation of the public accounts	2018 and subsequent years

Source: Action Plan for Reform of the Budgetary Public Accounts for Accrual Accounting based on the IPSAS, Ernst & Young, October 2012

44. **The last mission also recommended work to be done throughout 2012 to correct some differences within the account, and in order to test the new format with the data from the 2011 CGE.** During 2012, the DNCP produced the main statements with the new format, with the data from the 2011 CGE, and undertook research as to the causes of the differences in the account.

45. **The DNCP's efforts to test the new format for the account produced mixed results.** The most recent public accounts mission recommended that the DNCP undertake later in 2012 a trial of the new format for the account, using the data from the 2011 CGE. In order to facilitate this process, the mission left a copy of the new format, with comments, highlighting the points that would require attention, plus tools to support production of the new account. The results were mixed (see Table 5).

Table 5. Comments on the testing of the new account with the data from the 2011 CGE

<ul style="list-style-type: none"> • The 2011 financial performance statement was well done, with data reconciled with the 2010 CGE in the new format, and with Chart I from the 2011 CGE. • The 2011 Budget Performance statement had errors, since some subtotals were inserted in the format, without altering the formulas in the Excel template, and they thus affected the totals and likewise the final deficit ("net cash movement"), which did not agree with the deficit according to the statement of Financial Performance.

- Some opening balances in the 2011 Balance Sheet of Assets are very different from the closing balances from the 2010 Balance Sheet (financial assets, equity) – there is no annotation or explanation to say why the amounts changed.
- The 2011 CGE in the new format was missing all of the explanatory notes.

Source: Comparison of the CGEs for 2010 (undertaken by the Fund) and 2011 (undertaken by the DNCP), in the new format

46. Resolution of the discrepancies in the CGE moved forward, but there is still work to be done – it might be possible to resolve everything in the 2012 CGE. In the most recent mission in the public accounts area, some discrepancies were identified between charts from the 2010 CGE – specifically in the data for balances, interest and amortizations of public debt – and in the data for transfers between the central government and other parts of the public sector (local authorities and autonomous institutes):

- The differences in the area of public debt continued in the 2011 CGE, caused by the treatment of exchange rate variations in the balances (the DNCP applied the foreign exchange rate from December 31, 2011 to the December 2010 balances). This treatment was not explained in the relevant charts, and likewise is contrary to the international accounting standards, where it is advised to use the daily foreign exchange rate. In the future, it would be better to apply the daily foreign exchange rate, and thus ensure consistency between successive accounts; and the amount of the exchange-rate variations (of the initial stock and of the transactions over the year) should be reflected in the sixth column (Cancellation, Relief and exchange-rate variation) from Chart I-3. Another improvement would be the division of this column, in order to differentiate its components (cancellation and relief in one column, and exchange-rate variation in the other), which are different in their natures. If the DNCP does not adopt this more correct treatment, the current treatment could be explained in a note for greater clarification (with an explicit reconciliation of the differences between Chart I-3 and Chart I).
- One large and new difference in the debt data appeared between Chart I and Chart I-3 of the 2011 CGE, since the authorities decided not to include within Chart I, disbursements and amortizations of MZN 21.5 billion of domestic debt with “other banks and financial institutions”. The amounts appear in Chart I-3, but the authorities decided to exclude these amounts from Chart I and other charts, by virtue of them being treasury operations and off budget. As well, the authorities indicated that these amounts were received and reimbursed over the year, and did not form part of the long-term debt. This treatment does not constitute accounting best practice (which is normally contrary to “net” treatments, except in specific cases), nor is it transparent. The most correct treatment consists of including these amounts in the charts, and using the narrative commentary of the CGE (or, in the future, in the explanatory notes to the account) in order to explain the facts.

- As regards the transfers to the autonomous institutions, the differences arise due to the fact of Charts III and IV using the economic classification of expenditure, where the heading of “transfer” only includes the funds transferred for the direct management of the respective institutions, while in Informational Appendix 1, the transfers from the state also include the amounts of other transfers like staff expenditures, goods and services, and other expenditures for the benefit of such institutions. These differences may be reconciled by means of the detailed charts, but in the future an explanatory note seems necessary, for greater clarity.
- In relation to transfers to the municipalities, less difference was noted in the 2011 CGE, which seems to originate in an error in the economic classification of expenditure used in one of the municipalities, an error that did not occur in the 2010 CGE and that may be cleared up in the 2012 CGE.

47. **The DNCP has already confirmed that the 2012 CGE will have improvements in the treatment and explanation of these differences.** Based on the experience in the 2011 CGE, and the comments of this mission, the DNCP has already confirmed that it will undertake improvements in order to better clarify the differences that exist amongst the data present in the charts, tables and informational appendices.

48. **In discussions regarding the new public accounts project, the mission highlighted certain aspects to be taken into consideration in the work to be done in 2013.** The EY team includes Mozambican accountants, as well as Portuguese consultants with experience in the reform of the public accounts in that country. At the time of this mission, the EY team was still in the midst of the initial phase of this work, and of the discussions with the DNCP and CEDSIF. Thus, there was nothing very concrete to review, beyond action plans and implementation of the first phase, which describe the work to be carried out but not the outcomes nor the direction of the current work. Instead (therefore), the mission held discussions with the CEDSIF, EY and DNCP, to discuss aspects of the AP and the next steps. The year 2013 will be very important in this process. The intention is to determine the path for the future by the end of June, and formalize this into new accounting standards, and seek approval by Parliament of these standards prior to the end of 2013. The main points of this discussion were as follows:

- A reform of this kind could take many years and it would be good to avoid overly ambitious plans and timelines.
- A transition to an accrual system should be carried out in phases or stages, and not in one giant leap. Specifically, the introduction of the concepts and practices of accrual accounting should wait neither for the setting up of all of the computer systems, nor for the availability of the accounting data in all of the organs of the state.

- The gradual introduction of accrual accounting could be seen in terms of an expansion of the scope of the accounts on three dimensions: the kinds and number of entities to consolidate; the kind or class of assets and liabilities to be captured; and the valuation of these assets and liabilities. This process will result in the development and use of a format and contents of new financial statements, and will be guided by the international accounting standards (which in fact are financial reporting standards).
- The nature of public accounts standards means that it supplies a framework for requirements and guidelines, which will need interpretation, and is dynamic. This framework will evolve, not only because it is a learning process (in the light of experience), but also because new standards will arise and others will be updated.
- In order to plan this process, develop new standards, and seek approval of these standards by Parliament, it will be difficult if not impossible to define the entire transition process in all of its details. More importantly, the focus of the standards is on the financial statements, and it would be difficult to specify how they will be developed throughout the transition, in terms of scope, format and contents of the accounts. It would be better to differentiate between those aspects of the standards that are more permanent, in order to incorporate them in a law or decree, leaving the most dynamic aspects for incorporation into a more administrative instrument (circular, accounting manual, etc.).
- One important component of a development of this type will be the existence of pilot projects and experiments, prior to deciding on the final requirements and specifications. The project will face unforeseen challenges that will change the timeline, the thinking and decisions regarding what options are to be adopted. This aspect is one more argument against the overly detailed specification.
- It would be difficult to plan this transition, and its stages, without a census of the entities, assets and liabilities, in order for them to be incorporated or consolidated. Armed with the results of a census, the project may plan a path, with the objective of including the assets and liabilities, and the entities by kind or class, in a sequence or order offering the best combination of cost (for their collection) and benefit (in terms of the information being material). This cost/benefit formula will be informed by the availability of the data, and by the amounts of the assets or liabilities to be incorporated. For example, the cost of public pensions (which will be significant) may be calculated with an actuarial estimate (which is not expensive). By contrast, the cost of calculating “accounts receivable” or “accounts payable” may be high, and the value less significant.
- In the transition, the government will go from an initial position, where the regime is cash-based (or near-cash-based), to a final position where the regime will be accrual-based. During this transition, the cash rule provides a foundation: this rule applies not only in a pure cash regime, but also envisages and encourages the transition to an accrual-based regime. Study 14 of the IPSASB, updated in January 2011, also provides

guidelines as to this process. The other rules, which are applied within an accrual-based regime, may be applied in a sequence that follows the order of inclusion in the accounts of the assets and liabilities.

- There will have to be changes of systems in order to support and facilitate the transition to an accrual-based regime. In the area of accounting, the e-SISTAFE system already has some basic accrual accounting functionalities, but will need other functionalities typical of other accounting systems. The target should be to capture and store a great deal of accounting data generated by e-SISTAFE, on the double-entry basis; some summary data coming from other systems (for example, public debt and the management of taxes); and manual entries in order to make some rare corrections and transactions. The system will likewise need to accept summary data from the entities outside of e-SISTAFE as such, in order to feed and produce the consolidated accounts.

49. **The EY team confirmed that these considerations have already been highlighted in the discussions between them and the CEDSIF and DNCP.** Even if Mozambique has a significant advantage with the presence of a system (e-SISTAFE) that will provide a foundation for supporting and sustaining that transition, internal discussions already recognize the challenges to be addressed over the length of the Project. The results of these discussions, and the work of the consultants, will not appear until June.

Recommendations

- The DNCP should improve presentation of the 2012 CGE, in order to avoid or clarify the differences already identified between the charts of account.
- The DNCP should test the new format for the account, using the data from the 2012 CGE, adjusting the format if necessary, based on the results of the new standards available at the end of June. Thus, the test will help to check the new standards, prior to their approval at the end of the year.
- In the current phase of the reform of public accounts, the authorities and consultants should consider recommendations and guidance from the foregoing missions, and from this one. The focus and guiding strength of the reform should be the gradual development of the financial statements all throughout the reform, up to a full accrual-based regime.

D. Internal and External Controls

50. **The work and load of the General Finance Inspectorate (IGF) continue to develop, and a new conceptual model will guide the improvements.** The IGF informed us that since the last mission, the number of auditors has grown, along with their training, and that use of e-SISTAFE by the auditors has also grown. But the most important development has been approval of a new conceptual model of internal control, in October 2012. The IGF

and CEDSIF are working on establishing and implementing this new model, with a view to modernizing and coordinating the efforts of the inspectors and internal auditors within the IGF and the line ministries. A new law and other standards will be needed, including a manual. The proposals include: IGF provincial offices; planning and coordination of the work of the IGF and sectoral inspectors; new standards and guidelines, and skills training, in order to guide and support this work; the inclusion of the processes of internal control in the e-SISTAFE system; and development and experimentation in the areas of systems²⁵ and performance auditing²⁶; and a system for supporting the management of audits and their results. During the 2013 financial year and beyond, the IGF will provide or facilitate²⁷ an opinion (as to reliability and compliance) on each management account, prior to sending the account on to the Tribunal, and likewise on the CGE, prior to sending it on to the Tribunal. The IGF looks to cover around 67 percent of the budget in 2013 (the target was 47 percent in 2012).

51. The Administrative Tribunal (TA) is coordinating its efforts with the IGF and sectoral inspectors, and as well with the Offices for Fighting Corruption. The TA exchanges annual plans with the IGF, with a view to coordinating the audits of entities. In the future, the TA will benefit from an opinion on each management account (see the foregoing paragraph). The TA is helping with the training of the auditors in the line ministries at provincial level and in individual institutions. The decentralization process continues, but the TA still has to institute four more provincial courts and provide them with capacity-building. In the area of prior approvals of contracts, the ceiling below which an approval is not needed continues to be five million meticaís, but the deadline for providing an approval has fallen to 45 days (it was 90 days). Past this deadline, the contracting may proceed with no need for approval. In the case of the approval for staff (hiring, progression, etc.), the TA is of the view that the country has not reached the point of being able to relax this requirement, because of the volume of errors and irregularities that the TA discovers in these files.

52. The accounting reform presents an opportunity to reduce the time limit for sending on of the CGE and of the TA's opinion to Parliament. The TA confirmed that there have been internal discussions, and discussions with the Ministry of Finance, but no

²⁵ “System auditing” means assessment and use of the system directly within the audit process, and not only “working around” the system, but rather having confidence that the system works well. Typically such new audit involves assessments of the controls within the system, and extraction of the data to inform or support the audit.

²⁶ “Performance audit” means assessment of the results of the government’s programs – typically covering economy, efficiency and efficacy in the use of public resources.

²⁷ Circular 1/GM/MF/2013 – The Circular requires the “payment authorization officials” in each body to submit the management account to the internal audit unit, and after the auditor provides his/her opinion, to send the account to the Court and to the top manager of the body.

progress on the issue of reducing the period of time prior to publishing the CGE and opinion. The target of making the CGE and opinion available prior to the end of September, and not the end of November, represents an acceleration by only two months: but it would offer a gain of six months on the time that Parliament would have to consider and approve the CGE. At present the Assembly receives the opinion at the end of November, and typically the CGE and opinion are evaluated the following April, due to the scheduling of parliamentary sessions and the pressure of other parliamentary work. The availability of the CGE and the opinion at the end of September would facilitate their consideration in the October session, and prior to consideration of the state budget of the following year. The reform of public accounts may and should include consideration of this time limit, and with the collaboration of the TA, plan a path to reach this target. This reduction by two months could be divided precisely between the time available to the TA and the DNCP – one month each.

53. The reform also offers an opportunity to modernize and make available accounts from each institution, based on the management accounts, or instead of them.

The current management accounts are important instruments of accountability of each state body. The current reforms (opinion of the IGF or payment authorization officials; the production of the charts via e-SISTAFE; and their greater availability) will reinforce the value of these latter accounts. But at the same time, the management accounts are not available for the public or Parliament – the finances of all of the institutions are included in the CGE (with greater or lesser detail). But it may be difficult to compile a portrait of the finances of a specific body, combining information concerning its expenditures, revenues, balances, assets and liabilities. The International Public Sector Accounting Standards may be applied at the various levels and different entities of the public sector – for example, the government itself (in the CGE) and each organ of the state. The management account may continue as the internal method for rendering of accounts, but it would also provide summary data to be published in an account for each body, in line with international standards. These accounts would be consistent and integrated with the new CGE, and likewise would improve the transparency of the financial management of each body.

Recommendations

- The government and the TA should develop plans for reducing the time limit for remittance to Parliament of the CGE and the opinion of the TA.
- The reform of public accounts should include consideration of the opportunities to improve the transparency and availability of the financial performance of each entity of the state, by means of published accounts that follow international standards.

III. INFORMATION AND COMMUNICATION TECHNOLOGY

54. **The reform of public finance management (PFM) in Mozambique is advancing consistently and in a sustained way.** The e-SISTAFE system that supports budget, financial and asset execution is presently being implemented in 620 UGBs. The process of e-SISTAFE rollout to the various organs and institutions of the state got translated into a very positive trend in execution of the state budget through the direct route, which in 2012 reached the level of 52.6 percent (in 2011 this level was 42 percent). The various modules that make up e-SISTAFE are in different stages of development and implementation, as is reported in summarized form in the following table.

Table 6. Situation of the Technological Components of the Reform of SISTAFE and of expansion of its rollout

Components	Current situation and trend over the short term
SNPO	The conceptual model for the National Planning and Budgeting System has been completed.
MEO	Improvements introduced in the Module for Budget Preparation
MEX	<p>Budget Execution Module. The Business Model is defined in such a way as to operationalize the accrual accounting methodology.</p> <p>The functionality has been introduced in this module for appropriateness of management acts, which permits the payment authorization officials of each UGE to confirm budget execution compliance by its unit.</p> <p>The functionality has been developed that allows inclusion in the contracts of the number of the commitment note.</p> <p>A checklist has been developed, to be validated by the Expenditure Operator.</p>
MPE	<p>State Assets Module – the conceptual model and business model are completed and approved. The interoperability of this module with the MEX enables automatic incorporation in the MPE of the assets subject to inventory. This MPE module rests on the Register of Suppliers and Contractors and the Catalog of Goods, Materials and Reference Prices, as well as on the organic headings system and on the expenditure headings system. This interoperability is ensured by e-SISTAFE’s modular architecture.</p> <p>At this time, the municipalities and public enterprises are using e-Inventory (preliminary version of the MPE developed by the CEDSIF) for the recording of the goods acquired in 2012, in order to complete the 2012 General Public Accounts.</p> <p>The Catalog of Goods and Services has been created and updated, with the inclusion of the Reference Prices. The contracting of a consultancy has contributed to this task, to support in the definition of the structure of the catalog. The Database of the Catalog of Goods and Services of the State of Minas Gerais has been made use of for feeding the Catalog of Goods and Services of Mozambique.</p> <p>The Catalog of Suppliers has been created and updated. Information coming from the Revenue Authority, in relation to the NUITs of the suppliers, has contributed to this updating.</p>
e-CAP e-CAF	<p>Modules for Register of Pensioners and Staff</p> <p>The possibility is under study of implementing an Internet application for proof-of-life of pensioners;</p>

Components	Current situation and trend over the short term
e-Payroll	<p>Development of e-Payroll in order to permit the calculation of salaries and allowances for teachers, and the staff of the schools and hospitals.</p> <p>Payment of salaries by way of e-Payroll has been expanded to 595 more institutions, with six central-level, 136 provincial-level and 104 district-level, plus 349 schools at district level.</p> <p>Business Model defined for the life cycle of pensioners (third quarter of 2012)</p> <p>Rollout of e-Payroll in education and health has had a significant impact on the percentage of execution of the OE by the direct route.</p> <p>Out of the universe of 247,725 state functionaries and agents that existed in 2012, 81,750 were paid through e-Payroll, which is to say 33%.</p> <p>The stage of development of e-Payroll permits its application out to the entire public administration of Mozambique, for which reason such application should be established by law through decree, and assigned a very short timeframe for application.</p>
SGRH	<p>Human Resource Management Module. Conceptual model defined (Appendix 3).</p> <p>Business model in preparation (third quarter 2012).</p> <p>Customizing of Oracle's Human Capital Management (HCM)</p> <p>It still remains to collect up-to-date information</p>
MGI/ e-SISTAFE Portal	<p>Information Management Module. Business Model under discussion. (see Appendix 2)</p> <p>The terms of reference defined for the BI (Business Intelligence) tool for support to report generation (second quarter 2012);</p> <p>The budget execution reports came to be improved and provided in a timely fashion for incorporation into the Management Account, which will replace the manual bookkeeping, starting from the 2013 fiscal year (according to Circular 01/GM/MF/2013 of February 18, 2013);</p> <p>Conceptual Model for the Information Management Subsystem defined – e-SISTAFE Portal;</p> <p>The functionality has been developed that permits automatic extraction of information by the MGI, from charts that make up the management account.</p> <p>The e-SISTAFE architecture has evolved into an SOA (Services Oriented Architecture), on the basis of which e-SISTAFE's modular structure as such will be ensured, along with its interoperability with other systems.</p> <p>This trend came about as a positive and collateral effect of the e-Taxation project, and will necessarily have as its outcome a more Internet-based e-SISTAFE.</p>
e-Taxation	<p>Customizing of ETPM (Oracle's Enterprise Taxation and Policy Management)</p> <p>Design completed of the IRPC and e-IRPS modules</p> <p>The estimates have been updated for effort for e-Taxation. Its entry into production is foreseen for 2014.</p> <p>Conceptual model and business model for the collection network (entry into production in 2012)</p> <p>Conceptual model and business model for the VAT, IRPC and IRPS (2013)</p> <p>Conceptual Model and Business Model for GARE (entry into production in 2012)</p> <p>Entry into production: VAT, ISPC at the end of 2013; remaining rates and taxes in 2014.</p> <p>Interface with Single Electronic Window in January 2013</p>
NUIT	<p>The NUIT taxpayer registration module has been developed and has come into production.</p>
JUE	<p>Single Electronic Window Module. Entry into production in the Port of Maputo in 2011, operating with two banks; in 2012 it will enter into production at the seven main Customs posts, collecting 70% of the Customs fees; in 2013, this amount is to rise to 90%.</p>
GARE	<p>Establishment of the unified collection document, in coordination with the Revenue Authority (TA) and the National Treasury Directorate (DNT).</p>

Components	Current situation and trend over the short term
	<p>The conceptual model for e-Taxation envisages a single document for collection of public revenue (GARE – the Guide to the Collection of Public Revenue), to be generated exclusively by the e-SISTAFE Collection Network Module. This Guide shall respect the principles of integrity, validity and security of information, and will work for collection of all public revenues. At this time the business model of the “collection network” is in its concluding stage, and will be implemented with the VAT and ISPC modules.</p> <p>Development is in an advanced stage for both the conceptual model as well as the business model. This component rests on the interoperability of the three systems: e-SISTAFE, e-Taxation and Single Window.</p> <p>The Guide will be implemented simultaneously with the entry into production of the VAT and ISPC modules of e-Taxation, the pilot for which is expected at the end of the year 2013. The Business Model and the Common Procedures Module have already been drawn up.</p>
e-SISTAFE development	<p>The e-SISTAFE architecture has evolved into an SOA (Services Oriented Architecture), on the basis of which e-SISTAFE’s modular structure as such will be ensured, along with its interoperability with other systems.</p> <p>This development came about as a positive and collateral effect of the e-Taxation project, and will of necessity contribute to a more Internet-based e-SISTAFE.</p> <p>For rollout of SISTAFE.</p>
Rollout of SISTAFE	<p>e-SISTAFE has been installed in 106 more UGBs. At present it is implemented in 620 UGBs.</p> <p>The process of e-SISTAFE rollout to the various organs and institutions of the state has been translated into a very positive process of execution of the state budget by the direct route, which reached the level of 52.6%. In 2011 this level was 42%.</p> <p>The objective of completing e-SISTAFE rollout in 2015 is entirely achievable.</p> <p>In order to support the rollout of e-SISTAFE, CEDSIF contracted two resident technical staff for each province (one for hardware and one for software).</p>

55. **The SISTAFE regulation²⁸ stipulates that e-SISTAFE is the only computer system supporting SISTAFE.** Thus the government of Mozambique has explicitly and innovatively embraced the importance of holding integrated information on the finances of the state in a form that is both comprehensive and national in scope, and that is nowhere available in such a form. Thus, the government on the one hand has endeavored to ensure access to the information needed for good state financial administration, and on the other has sought to avoid the proliferation of incompatible computer systems, supporting the adoption of a single technological solution. CEDSIF has been implementing these guidelines, performing with competence and assuming a determinant role as facilitator of the of PFM initiatives in Mozambique, and will surely see its role strengthened. Now the existence of a single computer system does not mean that information is hidden, or is served up drop by drop. It means generating it and aggregating it from various sources (other subsidiary systems) and maintaining it, always accessible, updated and reliable, since only in this way can such information be transparent and actually relevant.

²⁸ Sub-paragraph 1 of Article 99 of Legislative Decree 23/2004.

56. **The effort for organizational upgrading of CEDSIF for support to the SISTAFE reform was followed up on.** In the course of 2012, the Legislative Decree was amended that created CEDSIF. CEDSIF's organic statute was approved, and the proposal for CEDSIF's rules of procedure was drawn up and subjected to review, with a view to its approval by His Excellency the Minister of Finance. The contracting of resources with responsibilities in the area of ICTs implies the assignment to CEDSIF of a recruitment status of its own, as an exception to the general public service law, presently in the approval phase.

57. **An ongoing improvement was implemented in the processes of development and delivery of IT services (for systems developed in-house) and systems certification (for systems developed through outsourcing),** with these being activities where the Quality and Certification Service (SQC) and Operations Service (SO) intervened. These two services pushed forward the practices for governance of the ICTs (Information and Communication Technologies) within CEDSIF, so as to adhere more and more to the best practices described in the ITIL and CMMI (Capability Maturity Model Integration) reference models. Along these lines, the "Software Quality Plan" has been drawn up and the Catalog of ICT Services has been prepared. The development of the e-SISTAFE architecture toward being an SOA architecture is on the way, with good results. See Appendix 1 – Software Architecture Document, MPE (State Assets Module), CBSO (Catalog of Goods and Services) and CEF (Catalog of Companies and Suppliers).

E-Payroll

58. **Although rollout of e-Payroll has reached nearly all the institutions of the central government, the level of salaries paid through this system, the actual level of state functionaries and agents, and corresponding salaries reached, remain low.** Throughout the year 2012, rollout of e-Payroll in the institutions of the state has been followed up with an integrated computer system for financial administration (e-SISTAFE) in regards to the staff registered in the Register of State Functionaries and Agents (e-CAF). Out of the universe of 247,725 state functionaries and agents that existed in 2012, 81,750 were paid by way of e-Payroll, which is to say, 33 percent. Just recently in 2012, e-Payroll was expanded to 595 more institutions, with six central-level, 136 provincial-level and 104 district-level, plus 349 district-level schools.

59. **The combination (e-CAF+e-Payroll+e-SISTAFE) constitutes a very robust software application for payment of salaries, allowing rigorous control of what gets paid and to whom.** The payment of salaries through e-Payroll presupposes registration of the staff in the e-CAF register (with NUIT and bank account as attributes), with payment being made using e-SISTAFE's home banking, which is to say, directly from the CUT to the employee's bank account. In addition to this, the payroll records issued via e-Payroll permit the detailing of the various attributes associated with the employee and his/her salary. e-Payroll implements an algorithm for calculation of salaries based on the attributes of the

employee's professional career path and salary level, as well as the days or hours of the employee's actual work.

60. Other less robust systems are still being used for the payment of salaries, bringing with them a certain risk. In addition to e-Payroll, payment of salary in the Mozambican public service continues to be undertaken as well through other computer applications: SNV in the bodies of the City and Province of Maputo, including the central administration; SPS in the organs of the centre of the country, and SPAV in the organs of the north of the country. These systems (SPS and SPAV), which predate the introduction of e-Payroll, present some significant weaknesses, such as the following:

- They permit payment of salaries to employees without them being registered in e-CAF, and through advance of funds.
- Two of these software packages (SPS and SPAV) do not allow making payment through e-SISTAFE's home banking. The payments are made via advance of funds, without automatic reconciliation with the data in the e-CAF register, which constitutes a serious security weakness in the system for payment of salaries.
- The SNV system provides functionality that allows the carrying out of payments by the direct route in e-SISTAFE, but some part of the salaries is still paid, using this software, via the former procedure of advance of funds. This is due to the lack of recording of the employee's NUIT and bank account.
- The payroll records in SNV, SPS and SPAV indicate a total amount to be paid, with no breakdown by salary attributes that would permit checking of the detail of what is being paid on that month to each employee.

61. Security in the payment of salaries will increase considerably with full use of e-Payroll. The recent discovery of frauds in the payment of salaries has shown the existence of double payments to some employees, undertaken via funds advance for parallel payroll records. If the rollout of e-Payroll had been concluded for all of the state functionaries and agents, the automated controls in the software solution developed by CEDSIF (e-CAF+e-Payroll+e-SISTAFE) could have avoided this fraudulent situation.

62. It is of fundamental importance to update the action plan, by May 2013, for continuing with expansion of e-Payroll, and in parallel to establish payment by the direct route in the other three systems. It is important to understand and analyze the constraints that have made rollout of e-Payroll difficult throughout the entire public service, and to find pragmatic solutions in order to ensure that this rollout can take place. The first difficulty consists in the updating of the register of employees (e-CAF), which is incomplete and needs to be audited. But there are other constraints that may lead e-Payroll to reject

payment of the salaries of particular employees. The above-mentioned revised action plan should categorize all such problems and propose solutions, distinguishing the level of solution of each action required (technical intervention within CEDSIF, joint action of the Ministers of Finance and of the Public Service, or decision of the Council of Ministers), with an indication of time limits for fulfillment.

63. By the end of 2013, measures should be implemented permitting improvement in the level of security in payment of salaries. In a meeting with the authorities, the broad immediate lines of action were identified for resolving the main issue: the lack of control of bank transfers, and the payment of salaries by advance of funds:

1. An additional effort is to be made to update e-CAF and ensure full and trustworthy registration of all public employees by the end of 2013.
2. Rollout of e-Payroll is to be completed within the institutions by September 2013, with priority being given whenever possible to the payment of salaries via this system, given that it is the system that offers the highest levels of control and security. The cases rejected in e-Payroll should be resolved gradually, as indicated in the preceding paragraph.
3. CEDSIF will develop a functionality within e-SISTAFE, at the latest by September 2013, so as to enable the salaries processed in SPS and SPAV to be paid through e-SISTAFE's home banking, and to require that all salaries be paid in this way by end-2013.
4. Once Activity 3 is completed, there will cease to be payment of salaries by funds advance, since it is here where the main security failure resides. All of the salaries will come to be paid by the direct route, to e-SISTAFE home banking.
5. Activities 1 to 3 described above are labor-intensive, as a result of which execution time may be reduced depending on the human resources and on the infrastructure allocated to them.
6. It is the opinion of this mission that these activities (1 to 3) should be given a high priority, in the allocation both of human resources and of financial resources, for which reason the partners that support the public finance reforms should feel comfortable in embracing these aspirations.

64. In the medium term, the rollout of e-Payroll should get completed and recording of the e-CAF data automated. It is important to respect the stages and deadlines envisaged in the action plan for expansion of e-Payroll, and gradually abandon the other systems for payment of salaries. Within this context, development is expected of the National Human Resource Management System, which will provide even greater security for the system for payment of salaries. This action will require the support of the partners in terms of financial resources over a period of two to three years.

65. **It is necessary to cautiously monitor the advances achieved in implementation of these measures.** The government should draw up quarterly reports in which the gains are highlighted, along with the difficulties encountered, as well as potential solutions and readjustments. This process should be supervised by the IGF, in its capacity as internal control body. It is important that the results of this oversight be shared with the partners that support the public finance reform.

e-Assets - State Assets Module (MPE)

66. **The conceptual model and business model for the State Assets Module have been completed and approved.** Interoperability of the MPE module with MEX (budget execution module), permits the functionality of automatic incorporation into the MPE of the assets subject to inventory. This MPE module rests on the Register of Suppliers and Contractors and the Catalog of Goods, Materials and Reference Prices, as well as the Organic System of Headings and the System of Expenditure Headings. This interoperability is ensured by e-SISTAFE's Service Oriented Architecture (SOA). In parallel with e-Assets, CEDSIF has developed a simplified application for taking inventory of assets (e-Inventory), in order to allow completion of the general public accounts. The municipalities and the public enterprises are using e-Inventory for the recording of the goods acquired in 2012. e-Inventory uses the organic system of headings and the system of asset headings, and a new functionality has been added to it that permits calculation of the amortizations during the financial year (this was a recommendation from the previous mission).

67. **A functionality was designed in the Budget Execution module (MEX) for recording information related to the contract.** This was further related to the legal framework, form of letting of contracts, contract value and corresponding forms of payment, at the time of commitment and validation of the public expenditure.

68. **The Catalog of Goods and Services has been created and updated, with the inclusion of the Reference Prices.** The contracting of a consultancy has contributed to this task, to support in the definition of the structure of the catalog. The Database of the Catalog of Goods and Services of the State of Minas Gerais has been made use of for feeding the Catalog of Goods and Services of Mozambique.

69. **The Catalog of Suppliers has been created and updated.** Information coming from the Revenue Authority, in relation to the NUITs of the suppliers, has contributed to this updating.

70. **No advances were recorded in development of the Public Finance Portal.**

71. **In order to support the e-SISTAFE rollout, resident technical staff were hired by CEDSIF for each province (one for hardware and one for software).** This decentralization of CEDSIF will make it possible to avoid, or at least mitigate, the consequences of situations like those that the mission encountered in the field, where for more than six months the institutions were without a functioning e-SISTAFE system, due to a breakdown in the equipment.

e-Taxation

72. **Development of e-Taxation is based on customizing of Oracle's Enterprise Taxation and Policy Management software package (ETPM).** e-Taxation is being implemented for all taxes in effect in the Republic of Mozambique, in a partnership between the Revenue Authority and CEDSIF, bodies of the Ministry of Finance. This is the most complex and most demanding module of e-SISTAFE, and its development adheres to international standards of quality in software development. The decision of the authorities to choose Oracle's ETPM product has been shown to be a good one, not only due to the specific results in e-Taxation, but as well due to the positive influence that it has had on the other modules, and on the architecture of e-SISTAFE as such (see Appendix 1). The fact that at this time only the NUIT management module is in production – which is to say that in concrete terms, no tax is being collected via e-Taxation – is relevant inasmuch as it confirms the complexity of e-Taxation, and is of concern to the authorities and the real economy (higher red tape costs). The project team has already initiated rollout of e-Taxation throughout the country, with highlight to various training teams. The PR team for this project has been ensuring a very professional intervention. CEDSIF is taking advantage of the synergies between this project and e-SISTAFE, specifically for the Business Intelligence Unit (BI) of the Transparency Portal (see Appendix 2).

73. **The conceptual model for e-Taxation is completed and approved.** This document is quite detailed, already advancing some recommendations for development of the respective business model. e-Taxation seeks to be a tool that is easily used by the taxpayers for declaration and payment of taxes, as a way to produce a reduction in tax evasion. Along these lines, it opts for the Internet as a key instrument for making available services (and in this it differs from e-SISTAFE, the operation of which rests on a virtual private network).

74. **e-Taxation corresponds to the macro-process of administration of public revenues** as envisaged in e-SISTAFE's conceptual model, and taking in the following processes: (i) management of the NUIT registry; (ii) management of public revenues; and (iii) management of the collection network.

75. **The conceptual model envisages the interoperability of e-Taxation with all of the other modules of e-SISTAFE:** with the Budget Preparation Module (MEO), to make possible the treatment of the revenue forecast based on e-Taxation data; with the Budget

Execution Module (MEX), to make up-to-date access possible for MEX to the NUITs, and in order that the two systems may synchronously undertake recording of the phases of revenue, its classification and control of collection in the CUT. e-Taxation's conceptual model also makes provision for mandatory use of the COR (Budgetary Revenue Cell), a set of headings that specify a revenue heading in the state budget).

76. Once e-Taxation is set up, there will come to be one single System of Revenue Headings, which is to say, the two headings systems used at present will be unified.

77. The tests have been completed for the entry into production of the NUIT module.

78. The business models are being drawn up for each tax. The business models are completed for the VAT and ISPC, and delivered to CEDSIF for development of the solution. In the case of the VAT, given the complexity of the business model, initially business models are being developed for the critical processes, which are cross-cutting to the other modules/taxes (declaration, settlement, payment through the bank, and management reports). This phase will be completed by the end of the year 2013, and has the particularity of being cross-cutting to the other taxes/modules. In a second phase, tax foreclosures, audit and litigation will be dealt with, along with the production of reports for each one of the modules. The estimates have been altered of the effort for e-Taxation. It is expected that e-Taxation come into production in 2014. Implementation of the e-Taxation interface, with the Single Electronic Window, is expected for the end of 2013.

Recommendations

- Assign maximum priority to development and rollout of e-Taxation and e-Payroll. These projects are to be the object of a very close control. An intervention by the IGF is recommended in the internal control of compliance with the respective action plan, with a report to the Minister of Finance and to the pool fund that supports the reform.
- Although registering a very significant improvement in IT governance on the part of CEDSIF, it is necessary to continue to make advances in this area.
- Although it does not require a large allocation of resources (be they human or financial), the public finance portal will have a big impact on the image of public finance in terms of transparency, for which reason this will merit greater attention and the making of additional efforts for its entry into production.

APPENDIX 1 - SOFTWARE ARCHITECTURE DOCUMENT

Context

As envisaged in the legislation that provides support to the reform within the realm of public finance that has been implemented starting in 2002, the State Financial Administration System (SISTAFE) has five duly integrated subsystems, which are: State Budget Subsystem (SOE); Public Accounts Subsystem (SCP), Public Treasury Subsystem (STP), State Asset Subsystem (SPE) and the Internal Oversight Subsystem (SCI).

The SPE takes on a relevant role within this context, not only due to its intrinsic responsibility in the letting of public contracts and management of the state's property in assets, but also due to making viable the proper determination of the asset balance sheet and ensuring all relevant and reliable information for the drawing up of the general public accounts (CGE).

According to its Regulation, SISTAFE has one single computerized system to support it: e-SISTAFE. Meanwhile, the Regulation as such envisages that e-SISTAFE should be divided into modules, to the purpose of responding to all of the procedures envisaged for the system. The specific module for support to the administration of state assets is designated "Module for Administration of State Assets" (MPE). This module will be developed within the CEDSIF, in the same way that the MEX and MEO modules have already been developed.

The expectation is that this module have around 3234 registered users, of which on average 100 will be logged on at any one same time.

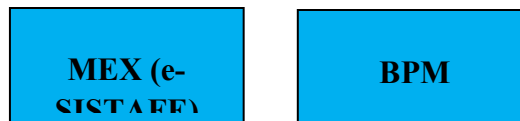
In technical terms, MPE will be developed through three modules:

- The MPE Module – which will contain the specific functionalities of the MPE;
- The CSBO Module (CSBO: Catalog of Goods, Services and Works) – A catalog of goods and services that will be used within the MPE, and that is planned to be reused by other modules in the future;
- The CEF Module (CEF: Register of Contractors and Suppliers) – A catalog of suppliers that will be used within the MPE, and that is designed to come to be used within the MEX, replacing the existing one, and in other modules in the future;



New systems

Existing systems



Logical View

The MPE, CEF and CSBO modules will not have a register of users as such. All of the users are to be registered within the Security Framework. Whenever it is necessary to validate the authentication data of a user, or check whether a given user has permission to execute a certain transaction, the modules will turn to the Security Framework services.

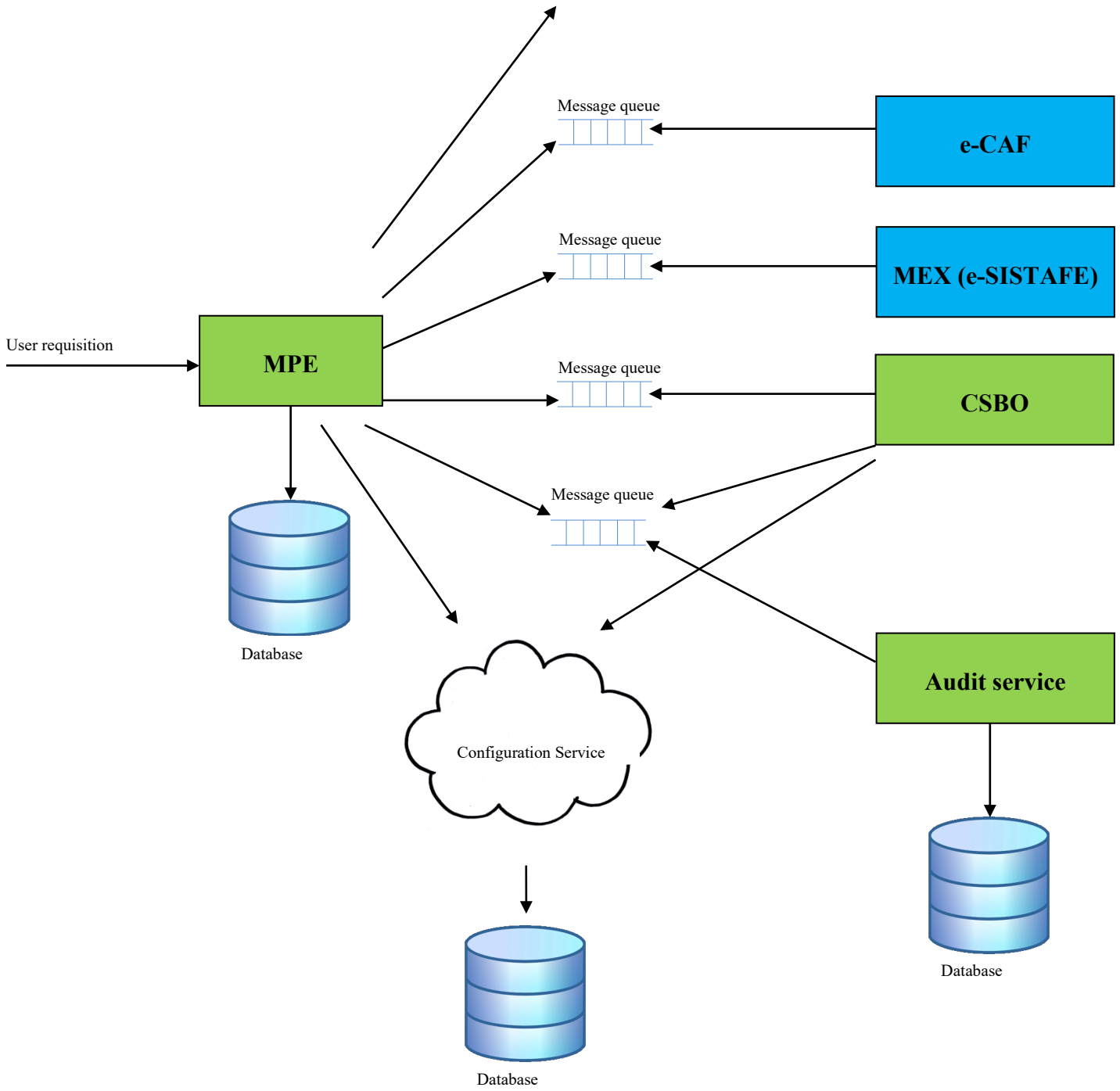
Various integrations are expected between these three modules and the existing modules.

The audit will be undertaken by an audit service that in the future will be used again by other modules.

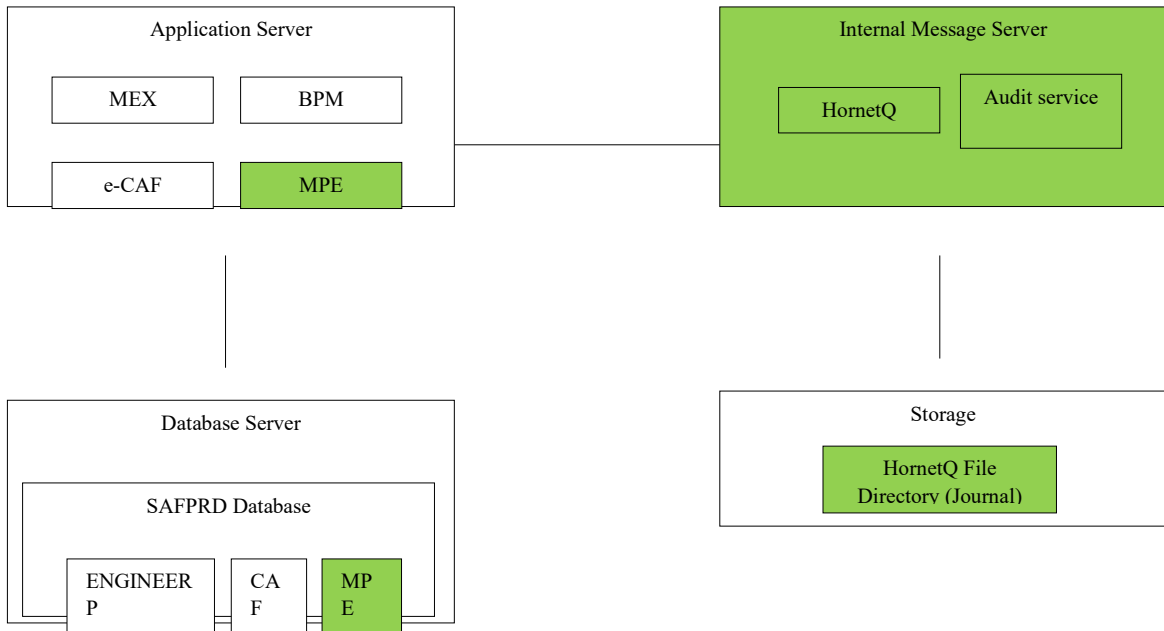
All this communication between modules and services will be undertaken through the intermediary of message queues, with the exception of the Configuration Service. In technical terms, this service will be a Java application that will make a memory space accessible to the modules, through the network. This application will be standalone. It will not require any application server in order for it to be executed. The procedure for initialization and shutdown will be similar to that of the Task Controller.

The Audit Service will also be a standalone application

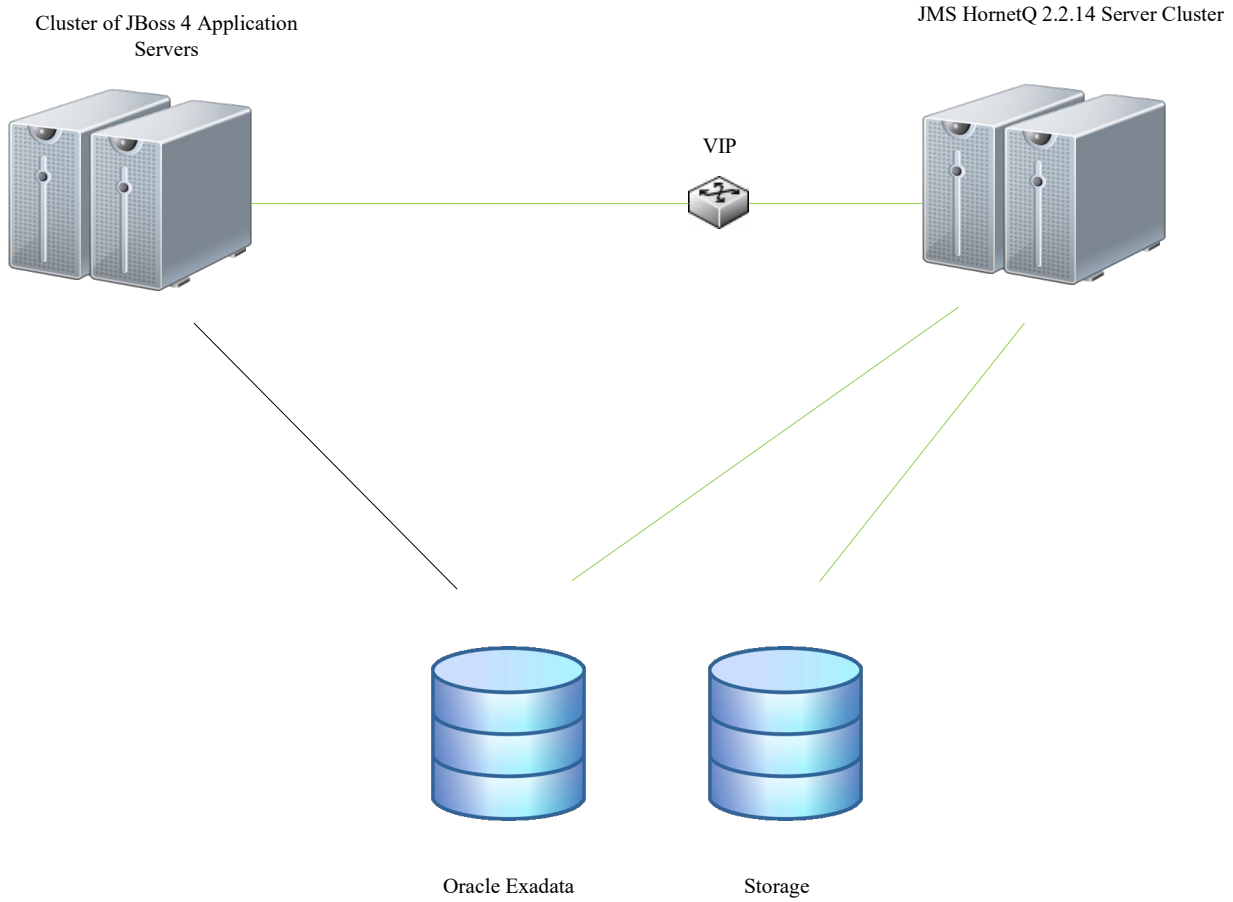
Both services should be offered with high uptime.



Distribution View



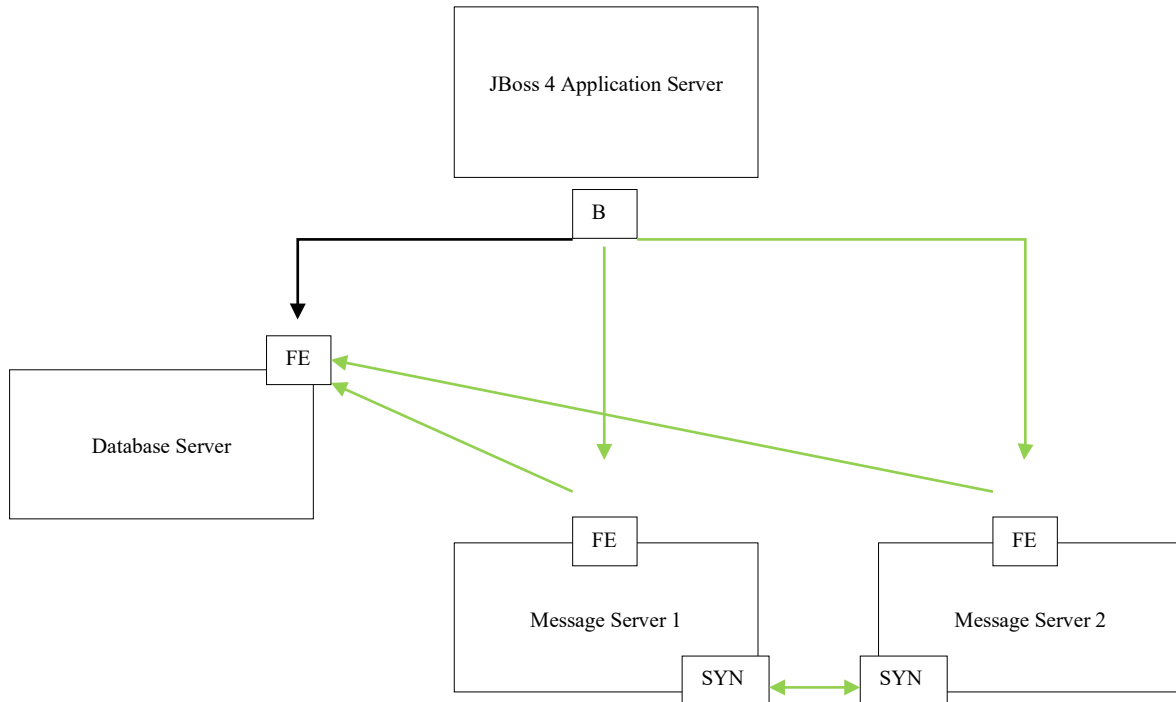
Infrastructure (Physical) View



The JMS servers are to have the following ports accessible:

- 1099 and 5445 in the foreign exchange interface;
- 3000 in the management interface;

Network Interfaces



Requirements of the JMS Servers

Specification:

- Quad core processor;
- 2 Gb of RAM memory;
- 100 Gb disc;

Software:

- SO: Solaris 10 or Linux;
- Oracle JDK version 7, update 4;
- HornetQ 2.2.14;