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TECHNICAL ASSISTANCE REPORT — REFOCUSING THE PUBLIC FINANCIAL MANAGEMENT STRATEGY

January 2023

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Republic of Mozambique

Refocusing the Public Financial Management Strategy

March 2014

Holger van Eden, Richard Allen, Margarida Azevedo,
Esther Palacio, Xavier Rame, and Mike Williams

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ABREVIATIONS AND ACRONYMS

AA	Accrual Accounting
AFS	AFRITAC South
APP	Annual Performance Plan
AT	*Autoridade Tributaría* (Tax Authority)
BM	*Banco de Mocambique*
CBS	Catalog for Goods and Services
CEDSIF	Finance Information System Development Center
CF	Catalog for Suppliers
CFMP	Cenario Fiscal de Médio Prazo (Medium-Term Fiscal framework (MTFF))
CGE	Government General Account
CoM	Council of Ministers
CUT	Treasury Single Account
CUT-ME	Treasury Single Account—Foreign Exchange
CUT-MN	Treasury Single Account—Local Currency
DAF	Directorate of Administration and Finance
DNO	National Budget Directorate
DNP	National Planning Office.
DNT	National Treasury Directorate
DSA	Debt Sustainability Analysis
DUC	Single Collection Document
e-CAF	Staff Register Module
e-CAP	Pensioner Register Module
e-CPAE	Provisional Staff Register Module
E&Y	Ernst & Young
e-Folha	Salary payment system
e-Taxation	Tax Administration System
ENDE	National Development Strategy
FAD	Fiscal Affairs Department
GARE	Guide to the Collection of Public Revenue
GdM	Government of Mozambique
HRMS	Human Resource Management System (also SNGRH)
IMF	International Monetary Fund
ICA	Internal Control Agent
IGEPE	State-owned Equity Holdings Management Institute
IGF	General Inspectorate of Finance
IMEC	Inter-ministerial Evaluation Commission
INSS	National Institute of Social Security
IPSAS	International Public Sector Accounting Standards
ISPC	Simplified tax for small contributors
IT	Information Technology

MAE	Ministry of Public Administration
MDG	Millennium Development Goals
MEO	Ministry of Education and Culture
MoF	Ministry of Finance
MOPH	Ministry of Public Works and Housing
MPD	Ministry of Planning and Development
MPE	e-Assets Module
MTEF	Medium-Term Expenditure Framework
MTFF	Medium-Term Fiscal Framework
NUIT	*Número único de identificação tributária* [Single tax identification number]
ODAMOZ	Official Development Assistance to Mozambique
OE	*Orçamento do Estado* (Government Budget)
PARP	Poverty Reduction Action Plan
PES	Economic and Social Plan
PFM	Public Financial Management
PQG	*Plano Quinquenal do Governo* (Government Five-Year Program)
PPP	Public-Private Partnerships
PSI	Policy Support Initiative
SOA	Service Oriented Architecture
SGRH	Human Resource Management System
SISTAFE	Public Sector Financial Management System
SNPO	National Planning and Budget System
TA	*Tribunal Administrativo* (Administrative Court)
UGB	Beneficiary Management Units
UGE	Executing unit
VAT	Value Added Tax

PREFACE

In response to a request from the Minister of Finance of Mozambique, Mr. Manuel Chang, for a technical assistance mission to advise on options for refocusing the public financial management (PFM) strategy, a mission comprising Mr. Holger van Eden (FAD, head), Mr. Richard Allen (FAD, expert), Mr. Mike Williams (FAD, expert), Ms. Margarida Azevedo (FAD, expert) and Ms. Esther Palacio (Resident Representative Office, Technical Assistance coordinator) visited Maputo during January 22–February 4, 2014. Mr. Xavier Rame (FAD) joined the mission for one week to help integrate the results of the recent Fiscal Transparency Evaluation (FTE) into the mission's report. Mr. Jean Luc Helis (AFS, advisor) also joined the mission for a few days and participated in a workshop with the mission team and senior staff of the Ministry of Finance (MoF) and MPD on strengthening the focus of the PFM reforms. The mission was financed by the Danish Embassy in Mozambique.

At the MoF, the mission held meetings with Minister Chang and the Vice-Minister, Mr. Pedro Couto; the Permanent Secretary, Mr. Paolo Manhique; the National Director of the Treasury (DNT), Ms. Isaltina Lucas; the Director-General of the Center for Development of Financial Information Systems (CEDSIF), Mr. Augusto Sumburane; the National Director of Public Accounts (DNCP), Ms. Amélia Mutemba; the National Director of the Economic Studies and Economic Analysis, Ms. Isabel Sumar; the Deputy Director of the Budget, Ms. Chamila Ali; the National Director of State Assets (DNPE), Mr. Bonifácio Dias; the Deputy Inspector General of Finance (IGF), Mr. Emanuel Mabumo; the Director of Tax Policy at the Revenue Authority, Mr. Algy Mussa Aly; and the Director of National Accounts of the National Statistics Institute, Mr. Saide Dade.

The mission also met with, among others, the Director of International Cooperation of the Ministry of Planning and Development (MPD), Mr. Adriano Ubisse; the National Director of Planning and Cooperation of the Ministry of Public Works and Housing (MOPH), Mr. Humberto Gueze; the Chairman of the Road Fund, Mr. Cecilio Grachane; the Director of the Department of Financial Administration (DAF) of the Ministry of Public Health (MISAU), Mr. Mulhovo; the Director of the Domestic Markets Department at the Central Bank of Mozambique, Ms. Ilda Comiche; and the Accountant-General for General Public Accounts at the Administrative Tribunal (TA), Mr. Moisés Amaral; and their respective teams. The mission visited the province of Maputo and the district of Boene, and the newly created Board of Accountants and Auditors of Mozambique (OCAM). Meetings were also organized with the Resident Representative of the IMF in Mozambique, Mr. Alex Segura; and with the donor community (World Bank and G19 partners), twice at the technical level and one presentation and discussion with heads of mission.

The mission would like to express its gratitude for the close cooperation, assistance and fruitful collaboration provided by the authorities, especially Ms. Isaltina Lucas, who guided the work of the mission. The mission would also like to thank all the participants for their active and constructive participation in the meetings and the two half-day workshops.

EXECUTIVE SUMMARY

Mozambique has made good progress with its PFM reform agenda which is centered around the e-SISTAFE IT system. Treasury and budget management processes have been substantially modernized and initial steps have been taken with more advanced reforms such as the medium-term fiscal framework (CFMP) and program budgeting. Donor support for the reform process has been substantial over the years, although some tapering of donor efforts is apparent. PFM reform is a long-term reform process. Compared with many other African countries Mozambique has done well, starting from a very low base.

The present reform agenda is, however, quite fragmented, and dominated by IT development processes. While the roll-out of e-SISTAFE has continued and the system architecture has been greatly improved in recent years, there seems to have been some slowdown in completing specific reforms such as the Treasury Single Account (TSA or CUT) and pursuing new ones such as the use of commitment controls. While IT system development has been generally successful, the full functionality of e-SISTAFE is not being used by line ministries and deconcentrated units. Capacity to operate and use the system for budget management and analysis seems quite thin. Systems integrity, including correct entry and coding of data also is a major concern.

The overall reform agenda is in need of adjustment and adaption to new challenges. Most prominent is the need to adjust the IT development focus of the reform process. Many of the basic IT systems have been successfully developed under the guidance of CEDSIF, the IT Development Center, which has played a leading role in the IT-driven reform agenda. The IT focus should now turn to more effective use of the system for financial management and reporting. This will require a reorientation of CEDSIF from sophisticated module development towards substantially more training, and provision of adequate equipment and maintenance. Development of key priority modules and functionalities such as *e-Tributação* and commitment control will, however, need to continue.

The management and coordination of the reform agenda is in need of strengthening and redirection. The reform process should be driven more by process and institutional development reforms. Setting up a Reform Coordination Unit, next to CEDSIF–whose role will remain important–would help to balance the present IT focus. The new unit would support senior MoF and MPD management in prioritizing, coordinating, and sequencing of reforms. A Steering Committee structure would help provide oversight, strategic direction and monitoring of reform progress, and help ensure, through participation of line ministries and other stakeholders, that user needs and priorities are better taken into account.

The content of reforms will also need to gradually shift from treasury management to planning and budgeting, and internal control processes. Treasury reforms have been quite successful. Some important goals such as completion of the CUT, improving cash forecasting, streamlining budget execution and developing basic cash management could all be achieved in the coming years. Further work needs to be done to make planning and budgeting instruments more credible and integrated in the coming years. The number of planning formats could be reduced and instruments such as the Integrated Investment Plan and the CFMP should be integrated into one instrument. Program budgeting should be introduced in full only after a number of measures have been taken to improve the present annual budget process. Internal control improvements, in part institutional, will be essential for assuring the integrity and quality of PFM processes and information.

New challenges for PFM reform are on the horizon. With the prospect of Mozambique becoming a major resource economy, the requirements for investment planning, debt and cash management, fiscal transparency, and risk management will increase. The processes and institutional capacities to meet these challenges will need to be developed in the coming years. This report includes a list of institutional developments needs for both existing as well as new reforms. It also reiterates the recommendations of the recent IMF Fiscal Transparency Evaluation and recommends setting up a Risk Management Unit within the MoF to develop an annual Fiscal Risk Statement to raise awareness and respond earlier to fiscal risks.

While transparency and risk management are priorities, improvements to the government accounting system should be planned with care. Accounting reform should be focused initially on reliability and timeliness of existing financial statements, and then on broadening the scope of reporting to general government, including, in full, the public corporation sector, which is a major source of fiscal risk. The present modified-cash system should be well defined and expanded with simple balance sheet presentations, drawing on the work of earlier IMF consultants. Before proceeding to accrual accounting a further review of the phasing of this reform, and the necessary process and IT preparations, would seem advisable. Accounting reform has proved complex and expensive for even the more advanced economies. The IPSAS accounting standards should be seen as guidance for developing accounting standards adjusted to the needs and capacities in Mozambique, and not be transplanted literally.

A final but important priority for the reform agenda is to enhance the capacity of staff and institutions. The mission strongly advises to proceed with the tentative plans to develop a Public Finance Academy as an in-house training facility for broadening the expertise in planning, finance and accounting. The curriculum should be targeted at MoF and MPD staff, but also at improving capacity in line ministries and deconcentrated units. Training, but also capacity building in the decentralized units, will be essential for the success of the overall reform agenda. There should also be an increased focus on change management processes. Within the MoF new units for Reform Coordination and Risk Management are priorities. Finally, for improving planning and budgeting processes, stronger coordination arrangements between the MoF and the MPD should be considered by the next administration.

The following sections of this review of the PFM Reform Strategy are structured as follows. After a summary of reform priorities in the short, medium and long term, the main section of the report provides an overview of the seven areas identified by the mission where (some) redirection of the reform strategy seems important. Each of these areas is then discussed in greater detail in the annexes.

SUMMARY OF REFORM PRIORITIES IN THE SHORT TO LONG TERM	**Priority**
Reorienting the PFM Reform Process	
In the short term (by end 2014)	
• Establish a PFM Reform Steering Committee chaired by Minister of Finance	H
• Establish a PFM Reform Coordination Unit in MoF working alongside CEDSIF	H
• Refocus PFM reforms to process redesign and capacity building–people, processes and institutions as well as IT–both in financial management and policy-oriented functions	M
In the medium-term	
• Preparation of a new SISTAFE law	M
e-SISTAFE Priorities	
In the short term (by end 2014)	
• Revisit the conceptual and business models for MPE and SGRH modules and consider delaying their implementation	H
• Develop, for the MPE module, CBS and CF catalogues and e-inventory	M
• Accelerate the development and implementation of e-*Tributacao*	H
• Give priority to activating the commitment functionality in *e-SISTAFE*	H
• Strengthen integrity and coverage of the applications used for salary payments	H
In the medium-term	
• Aim to complete *e-SISTAFE* roll out by end 2015	H
• Extend salary registration and payment applications to pensions	M
Completing Treasury Reforms	
In the short term (by end 2014)	
• Release circulars by the Minister and the Governor as part of program to reduce further the number of bank accounts outside the *CUT* and enhance use of direct payments	H
• Follow up with recommended task force on bank account closures	M
• Establish mechanism for sweeping into *CUT* all cash balances held outside the *CUT*	M
• Complete measures to bring all salary payments into *e-Folha*	H
• Begin process to separate payment and commitment authority; widen current pilot	H
• Address options for strengthening the position of the ICAs	M
• Develop cash forecasting capacity	H
In the medium term	
• Extend *e-Folha* to security services	M
• Introduce more flexibility in the release of budget authority	M
• Design project plan for moving towards more active cash management	M
Integrating Planning and Budgeting Functions	
In the short term (by end 2014)	
• Increase the coverage, content and time horizon of the IIP and integrate it with the CFMP, supported by the DSA	H

• Merge the macroeconomic and fiscal forecasting units in the MPD and MoF ***In the medium term*** • Reduce the number of planning instruments by merging PQG and PARP and including PES as an annex to the budget • Revisit budget costing methodology, including use of cautious but realistic macro forecasts • Develop multi-year, bottom-up baseline spending estimates • Build capacity for using program budgeting in line ministries for planning and execution	M M M M M
Modernizing Public Sector Accounting	
In the short term (by end 2014) • Undertake (with IMF support) a comprehensive review of the practicalities and implications of implementing accrual accounting ***In the medium term*** • Improve the reliability, timeliness of current financial information • Improve presentation of the government's annual financial accounts (CGE), including presentation of a financial balance sheet, along the lines of earlier technical assistance • Expand coverage of financial reporting to general government and the full range of public corporations • Develop balance sheet presentations for government entities ***In the longer-term*** • Move to accrual accounting step by step	H H M M M L
Enhancing Fiscal Transparency and Risk Management	
In the short term (by end 2014) • Incorporate into the government's PFM Reform Strategy the action plan proposed in the Fiscal Transparency Assessment ***In the short to medium term (by end 2015)*** • Establish a Fiscal Risk Coordination Unit within the MoF • Develop a full Fiscal Risk Statement for publication with the FY 2016 budget • Improve fiscal reporting (as above) and macro forecasting capacity • Develop a framework from monitoring fiscal risk	H H H H H
Enhancing Capacity and Sustainability	
In the short term (by end 2014) • Develop project for Public Finance Academy • Develop program of institutional strengthening of directorates and units within the Ministry ***In the medium term*** • Develop training curriculum in public finance topics for the MoF, MPD and wider public administration • Enhance capacity building in line ministries and provinces • Consider scope for career stream for financial and accounting professionals with training requirements (and rewards)	M H M M L

I. REFOCUSING THE PFM REFORM STRATEGY

1. **This chapter provides summaries of the mission's findings and recommendations in each of the seven areas that, in the view of the mission, need redirection and/or strengthening.** These are:

1. The overall direction and management of the PFM reform process.
2. Priorities in the further development of *e-SISTAFE*.
3. Completing budget execution and treasury reforms, including full use of the *CUT*, improved release policies, development of basic cash forecasting and management, and strengthening internal control.
4. Integrating and improving the national development planning and budget processes.
5. Modernizing public sector accounting, including the eventual introduction of accruals-based accounting.
6. Enhancing fiscal transparency and fiscal risk management.
7. Strengthening the institutional capacity of the government to modernize PFM systems and ensure their sustainability.

A. Reorienting the PFM Reform Process

Establish a PFM Reform Steering Committee, chaired by the Minister of Finance, including representatives of line ministries, provinces, and, possibly a selection of development partners, as well as MoF and MPD directorates. The Committee would meet twice per year, and provide oversight, give strategic direction and monitor reform progress, and ensure consultation on user needs and priorities.

Establish a PFM Reform Coordination Unit in the MoF, working in close cooperation with CEDSIF. The Unit would: (i) act as the Secretariat to the Steering Committee; (ii) support process and institutional reforms that are part of the PFM reform strategy and monitor their implementation; (iii) coordinate reforms with directorates of the MoF, line ministries, provinces and development partners; and (iv) develop a change management strategy that should be fully integrated into the PFM reform strategy and action plan. Additional staff will need to be hired for this Unit, and consultancy support mobilized.

2. **Institutional change to strengthen the management of the PFM reform process is necessary in Mozambique**, but a heavy governance structure as in some other African countries should be avoided. The focus should be on rebalancing the IT focus and addressing the lack of user consultation.

- The need for rebalancing is particularly important during a period when the reform strategy itself requires reorientation.

- The emphasis of PFM reform should shift gradually from modernizing the treasury to issues such as integration of planning and budget functions and strengthening internal controls.
- Policy-oriented functions—such as macro-fiscal forecasting and analysis, tax policy, debt sustainability analysis, fiscal risk management, the management of natural resource revenues, and the financial supervision of public corporations and PPPs— should start to be developed now, although this process will take some time. These functions are likely to become more important in the MoF's overall work program.

3. **Such functions require the development of strong institutions and human resource capability more than they require IT development.**

- A decreased emphasis on new IT development would be balanced by an increased focus on making the existing systems deliver better results, and on developing effective change management procedures. User consultation should be enhanced to counter the lack of ownership and use of the system outside the MoF and MPD.
- This shifting focus could be facilitated by a fundamental review of the SISTAFE Law to include modern principles of fiscal responsibility and transparency, as in neighboring countries such as Kenya, Lesotho, Swaziland, Uganda and Zimbabwe.

B. Priorities in the Further Development of e-SISTAFE

Revisit the sophisticated conceptual and business models for the new asset and human resource modules (MPE and SGRH) in light of the new SOA architecture, and possibly delay their implementation.

For the MPE module, develop as priority projects catalogues for goods and services and suppliers, and the module for asset registration; the e-procurement module should not be considered to have the same importance or priority.

Accelerate the development and implementation of the Revenue Collection Network for revenue administration and the associated access to banking services, as well as the Single Collection Document (DUC).

Give special importance and priority to development through e-SISTAFE of the registration and management of commitments.

Focus on building integrity into the e-SISTAFE applications used for payment of salaries and pensions, and gradually phase out the legacy systems still in use.

4. **The overall development of e-SISTAFE has gone well over the past 12 months; however, some refocusing of development aims seems necessary:**

- The highest priority of the reform process currently should be to make full use of existing e-SISTAFE functionality.
- As the present functionality of the system is being used only partially, for example in relation to commitment control. The focus of CEDSIF activities should turn more to training and system operation and maintenance, and less to further system

development. More sophisticated modules may have even less chance of being operationalized.

5. **Rollout of the core e-SISTAFE system should be completed by the end of 2015.**

C. Completing Treasury Reforms

Continue with efforts to finalize TSA reforms by reducing the number of bank accounts outside the CUT and extending the use of direct payments.

Complete measures to bring all salary payments of civil servants (for the time being excluding security services) into the e-Folha salary payment module.

Ensure that commitments are reported and controlled in e-SISTAFE when they are made. Strengthen the position of internal control agents.

Ensure that the DNT develops its cash flow forecasting capability and, over the medium term, moves towards more active cash management.

6. **The DNT should maintain its current program to reduce the number of bank accounts outside the CUT and extend the use of direct payments.**

- The planned release of circulars by the Minister and the Governor on the approval of government bank accounts should proceed without further delay. The existing regulations should be followed up proactively and on a regular basis by the DNT.
- DNT's aim should be that all balances held outside the CUT (with the possible exception of donor-financed project accounts) are swept into the CUT overnight.
- In relation to salary payments, the security measures implemented after recent frauds need to be completed, including also those employees excluded for technical reasons. The register of employees in e-CAF should be extended to provisional staff, and over the medium-term to the military and security services, with a view to including them in *e-Folha*.

7. **Commitments should be reported and controlled in e-SISTAFE when they are made.**

- The separation of commitment and payment authority should proceed selectively. It should be accompanied by a training program and a flow of information from the relevant UGEs on cash flow profiles and forecasts.
- The DNT should widen the current pilot on commitments beyond domestic debt interest. But that should not delay progress with improvement in the commitment functionality, which should be pursued independently of other modules in the MPE.

- Over time, good performance in managing commitments and improvements in analyzing cash flow information should lead to more flexibility in the release of budget authority, including by setting cash releases for a longer period. Such flexibility would improve the efficiency of budget execution.
- The MoF should address institutional options for strengthening the position of the ICAs, possibly through linking them organizationally to the IGF or DNT.

8. **Over the medium-term, the DNT should develop its cash flow forecasts, looking at least three months ahead; and design a project plan, integrated with other financial sector development work, for moving towards moving towards more active, but still basic, cash management (so-called rough-tuning).**

D. Integrating Planning and Budgeting

Two short-term priorities: (i)Increase the coverage, content and the time horizon of the IIP and integrate it with the CFMP (supported by DSA), thus reinforcing the usefulness of both instruments in resource allocation, and

(ii) Merge the macro-economic and fiscal forecasting units in MPD and MoF to enhance forecasting capability.

Over the medium term considerable work is needed to strengthen credibility of the planning and budget process, by:

Reducing the number of planning instruments and increasing the amount of quantitative information (e.g., on the costs of government projects, and their outcomes and outputs).

Improving the credibility of the annual budget process by using cautious but realistic estimates of revenues and donor contributions, improving costing methodologies, and better assessing recurrent and capital expenditure linkages.

Developing bottom-up, multi-year estimates of expenditure, starting with the capital investment projects recorded in the IIP.

Building capacity in line ministries and provinces for using program budgeting as an instrument of budget management.

9. **The CFMP is not yet a very credible link between planning and budgeting frameworks.**

- The CFMP is not anchored by a framework for fiscal targets or rules.
- The out-year estimates are unreliable and not “rolled-over” of the next year’s CFMP
- “Bottom-up” estimates of expenditure prepared by the sectors and provinces cannot be reconciled yet with “top-down” forecasts prepared by the MPD and MoF; such reconciliation is essential for a credible medium-term framework.
- A first step toward improving the quality of the CFMP projections could be the development of bottom-up estimates of capital investment.

10. **Planning instruments are not well aligned and not always consistent**

- The 5-year plan (PQG) and the Poverty Reduction Action Plan (PARP) could be integrated.
- The Economic and Social Plan (PES) should be aligned with the budget and included as an annex to it.
- In the medium- to long-term, program budgeting can be an important tool for better aligning the budget with strategic priorities, as defined in the plans prepared by the MPD.

11. **Budget credibility needs to be improved, but this will be a gradual process.**

- The annual budget still has many elements of an input-based, incrementally developed estimate of expenditures.
- Processes for preparing realistic estimates of the cost of budget expenditures need substantial improvement.
- Uncertainty about donor commitments and disbursement is still a major factor weakening the budget preparation process.

E. Modernizing Public Sector Accounting

Carry out a full review of the practicalities and implications of implementing accrual accounting (AA), and the cost and benefits of alternative options. The IMF would be available to carry out such an exercise.

Consider any move to accrual accounting as a long-term development, to be implemented in a step-by-step basis to ensure that the optimal benefits for fiscal reporting and transparency are delivered.

In the next two years, focus attention on improving the reliability, timeliness and transparency of the annual financial statements, and broadening their coverage to include all general government entities and the full range of public corporations.

12. **The government should only proceed with the move to AA after a full assessment has been made of:**

- The implications of AA for improved execution of the budget, consolidated financial reporting, and monitoring fiscal risks.
- The costs and benefits of alternative options for implementing AA.
- The technical, human resource, change management and financial implications of AA.
- Development of accounting policies relevant to the requirements of Mozambique, and aligned with IPSASs to the extent possible.
- Development of a prudent, phased approach to implementing AA, with each step designed to achieve specific improvements in financial reporting.

13. **In the next two years, the authorities should focus on improving the reliability and timeliness of current financial information**, and consolidating capacities in line with earlier IMF advice. In particular:

- Recording expenditures in compliance with SISTAFE requirements.
- Aligning the presentation of information in the CGE—relating to public debt, transfers to autonomous institutions and transfers to municipalities—with the chart of account.
- Developing a summary balance sheet, initially including only short-term financial assets and financial liabilities.
- Preparing a statement of accounting policies to be included in the CGE and any supporting or supplementary volumes.
- Making available a full electronic version of the CGE documents to be published on the MoF's website.
- Expanding coverage of financial reporting to general government expenditure and the public corporation sector, broadly defined.

F. Enhancing Fiscal Transparency and Risk Management

Incorporate the action plan proposed in the Fiscal Transparency Evaluation (FTE) into the government's PFM reform agenda.

Introduce an annual Fiscal Risk Statement (FRS) that would be both is an input to the government's evaluation of fiscal policy at the beginning of the budget cycle, and .be published with the budget documents to increase transparency.

Strengthen the capacity of the MoF to monitor and manage fiscal risks by the development of new analytical tools and improved data capture, and setting up a Fiscal Risk Coordination Unit.

14. **To strengthen fiscal transparency, priority should be given during the next two years in improving the reliability and timeliness of financial reports, and the macro-fiscal forecasts prepared by the government.**

15. **To strengthen the management of fiscal risks, priority should be to the development of a framework for the monitoring, analysis and disclosure of risks.**

- The short-term focus should be on management and control of contingent liabilities, including government guarantees, PPPs, INSS, multi-year contracts, and contingent liabilities.

- Exposure of the government to fiscal risks arising from public corporations, the financial sector, and local government (as decentralization proceeds) should be carefully monitored.

- In addition, over the medium-term a framework of fiscal rules for managing natural resource revenues should be developed.

16. **The introduction of a Fiscal Risk Statement (FRS) could be sequenced as follows:**

- Define the institutional arrangements and develop capacities to strengthen fiscal risk management. A Fiscal Risk Coordination Unit could be established in the NDO.
- Design a sequenced roadmap to disclose fiscal risks and a strategy to manage and mitigate them.
- Include in the CFMP a "summarized risks assessment" based on available information which could be taken into account during the preparation of the FY 2015 budget.
- Develop a full FRS for publication with the FY 2017 budget.

G. Enhancing Institutional Capacity and Sustainability

Establish a Public Finance Academy aimed at training both MoF and MPD staff, as well finance and planning staff from line ministries, provinces and districts.

Develop training programs both to meet the basic entrance level requirements of junior staff and more advanced training for mid- and senior-level staff members.

Strengthen directorates and units within the MoF in key areas such as coordination of the PFM reform process, macro-fiscal forecasting, fiscal risk analysis, and the monitoring of public corporations.

17. **Institutional capacity is weak in line ministries and provinces; existing training efforts are largely focused on the use of e-SISTAFE**, mostly provided through CEDSIF, and the courses are not always attended by managers.

- The MoF should establish a standard training curriculum for new staff, as well as for line ministries and deconcentrated units. This could be combined with CEDSIF's training courses which focus on the roll-out and use of e-SISTAFE.
- As in some other African countries, Mozambique should consider developing basic and advanced training curriculums for finance and planning staff across the public sector.
- The idea of establishing a dedicated training school, a Public Finance Academy, to provide a broad range of courses in economics, finance, accountancy, budget and IT topics, has already been discussed within the MoF and should be taken forward.

18. **The institutional and organizational framework for budget reform needs further development.** New challenges are arising with regard to reforms in areas such as the IIP, the MTFF, program budgeting, and management of fiscal risks and transparency.

The capacity of the MoF to undertake existing functions such as preparing the CFMP and IIP, macro-fiscal analysis and forecasting, and consolidation of the annual financial statements, should be reinforced. In the case of functions such as PFM reform coordination, fiscal risk management, the supervision and monitoring of public corporations and PPPs, new departments or units may need to be established in the MoF

19. **Over the medium-term, career streams for government accountants, economists, planners and financial managers, could be established with associated training programs, required qualifications, and possibly enhanced remuneration.**

As the private sector develops the draw on highly qualified personnel will increase. To some extent government will need to accept a need for a strong continuous training effort to accommodate staff turnover, in part career stream options would need to be developed.

Annex 1–7: Detailed Guidance on Reform Priorities

ANNEX 1: REORIENTING THE PFM REFORM PROCESS

A. Current Arrangements

1. **The direction and coordination of Mozambique's PFM reform strategy in practice is largely managed by CEDSIF whose main formal responsibility, however, is for IT aspects of PFM reform (development of e-SISTAFE).** CEDSIF has been quite successful in structuring reforms aligned with the development of the e-SISTAFE system. It was responsible for preparing the *Vision of Public Finance 2011–15* as well as the medium-term *Action Plan and Budget for Reforming PFM 2012–14.* It is not surprising that the PFM reform strategy has a strong (and arguably dominant) IT component. Of the 46 activities listed in the latest Action Plan, at least 25 are primarily or mainly focused on IT applications.

2. **There are few formal arrangements for setting PFM reform priorities in the MoF, or for reviewing progress against the various targets set in the *Action Plan*.** CEDSIF prepares quarterly and annual progress reports that are discussed with donors but, unlike many other countries, no high level steering committee exists to prioritize, sequence and coordinate the implementation of PFM reform activities, and monitor progress. The Minister of Finance holds meetings with his senior staff on a regular basis, but these meetings are used to discuss a wide range of internal issues as well as PFM reforms. CEDSIF arranges meetings on an informal and ad hoc basis with the directorates concerned to discuss specific PFM activities relevant to their functions, with an emphasis on their IT aspects.

3. **Arrangements for involving donors in discussions of PFM reforms are also fragmented and relatively informal, despite the substantial financial support provided**.[1] This might help explain why the number of donors supporting the PFM reform agenda has declined in recent years, and their frustration at the slow pace of reform in some areas has increased. Donors support PFM reforms through three main channels: Technical Assistance linked to budget support (on which there is a Memorandum of Understanding between the G19 group of donors and the government), common funds for tax administration and e-SISTAFE, and specific projects financed on a bilateral basis (e.g., World Bank support for program budgeting in the education and health sectors). Regular meetings take place among the G19 donors at various levels (economists, heads of cooperation, and heads of mission) to exchange information and discuss priorities. The donors have also established a coordination group on PFM issues, together with technical groups on specific topics such as tax administration, e-SISTAFE, procurement, internal and external audit, and budget analysis. The government and the G19 group prepare a joint Annual Review of the performance of the

[1] USD 157 million over the five-year period FY2010 to FY2014.

government in implementing projects financed by donors, including in the PFM area.[2] However, the donors are not represented on any governmental committees to discuss the PFM reform agenda.

4. **Apart from the *Vision of Public Finance* and the *Action Plan* prepared by CEDSIF, there is no single document that can be described as a PFM reform strategy in Mozambique**. Various documents prepared by the donors present some aspects of the support that they are providing for PFM reform , but these are not updated on a regular basis and do not present a coherent overall picture of the activities being carried out and supporting technical assistance. No comprehensive information is available on the cost of delivering the various activities and projects over the medium term, or regular monitoring of deliverables, outputs and key performance indicators.

B. Assessment

5. **The fragmented and unstructured arrangements for managing PFM reform in Mozambique contrast quite strongly with those in many other African countries**. The arrangements in Kenya, Sierra Leone and Uganda are summarized in Table 1; the structure to be found in other sub-Saharan African countries is generally quite similar. The main features are broadly as follows: (i) a high level steering committee chaired by the minister of finance, the deputy minister or the permanent secretary; (ii) a dedicated PFM reform unit; (iii) technical committees and component managers to manage specific activities and projects; and (iv) IT support units that are sometimes at the level of a directorate (e.g., the IFMIS unit in Kenya) and are generally positioned at arms' length to the PFM management structure itself. Another feature of these structures is that the development partners are represented (in some form) on the high-level steering committees which generally meet on a quarterly basis.

Table 1. Comparison of PFM Reform Coordination Arrangements in Sub-Saharan Africa

Kenya	Sierra Leone	Uganda
PFM Reform Steering Committee PFM Reform Secretariat Technical Working Groups Component Managers IFMIS Directorate	PFM Oversight Steering Committee Technical PFM Committee Thematic Management Committees Change Management Unit PFM Reform Unit	Sector Working Groups Public Sector Management Committee Program Technical Committee Component Managers Coordination Office Management Support Unit

Source: FAD staff

[2] Government of Mozambique and Programme Aid Partners (PAP), *Annual Review 2013: Aide Memoire*, May 2013.

6. **The governance structures found in other African countries provide a forum for open and frank discussion of PFM reform issues**. However, by creating numerous committees and many layers of management they can also be ineffective, slowing down decision making and in some cases paralyzing new initiatives. In this respect, the Mozambique model, with its informal relationships and absence of heavy bureaucratic structures, has an advantage, and has certainly contributed to the rapid progress of reforms in past years, especially in the IT area. The issue in Mozambique is a different one, namely the bias in the system toward IT development. While the drive for reform by CEDSIF has been useful in the past years, continuing with an IT driven strategy is starting to show diminishing returns. Users presently only use a small part of e-SISTAFE functionality and process and institutional reforms have lagged behind. This contrasts with the approach to PFM reform found in many other where the focus is on developing and reforming processes and institutions and in which IT development plays an important but supporting role. As argued elsewhere in this report, IT development should not become an aim in itself. Some institutional changes to strengthen the management of the PFM reform process should be considered in Mozambique, but these should have a lighter touch than in other African countries, and focus on rebalancing the focus towards process and institutional reforms, user requirements and capacity building.

7. **Various possibilities could be considered by the MoF to strengthen the current arrangements for managing the PFM reform strategy.** One option would be to transfer the employees who currently work in CEDSIF on institutional aspects of PFM reform to create a small PFM Reform Coordination Unit (RCU) that would report directly to the Minister and Vice Minister. Such a unit would be responsible, in coordination with CEDSIF and other departments of the MoF, for preparing and updating the PFM reform strategy, monitoring its implementation, advising the Minister and Vice Minister on reform priorities and their sequencing, and discussing with development partners the funding of TA activities to support the reform process. It is clear that this coordinating role is presently assigned to CEDSIF, but the dual role of reform coordinator and IT developer is creating a bias in the reform process towards IT development solutions. The RCU will require additional staff to be hired and consultancy resources may be needed from development partners. The mission also recommends the establishment of a PFM Steering Committee, which could provide oversight, strategic guidance and monitoring of the overall reform process, and would also provide a vehicle for discussing user needs and priorities. The Steering Committee would provide a voice for line ministries provinces and other stakeholders to voice their concerns on reform direction and feasibility. A Steering Committee would not need to meet more often than twice per year. A selection of donors could be asked to participate in the meetings as observers. The meetings would be chaired by the Minister or Vice Minister.

8. **The need to rebalance the present arrangements for managing and coordinating PFM reform is particularly important during a period in which the reform strategy itself requires some reorientation**. The present reform activities are very spread out and IT system improvements seem to have slowed down over recent years. The process needs to

refocus on priority reforms, and well-targeted modernization objectives. Also, as argued in this report, the focus of reforms should shift gradually from an emphasis on modernizing the treasury (where reforms could to a large degree be finalized in the coming three to four years) to one in which issues such as planning and budget preparation and the strengthening of internal controls are given more prominence. Looking forward, the policy-oriented functions of the MoF—such as macro-fiscal forecasting and analysis, tax policy, debt sustainability analysis, fiscal risk management, the management of natural resource revenues, and the financial supervision of public corporations and PPPs—are also likely to become more important in the MoF's overall work program.

9. **Such functions require the development of strong institutions and human resource capability more than they require IT development**. This shifting focus, which is a change in orientation only, would be facilitated by a realignment of the SISTAFE Law to include modern principles of fiscal responsibility and fiscal transparency, as has happened in neighboring countries such as Kenya, Lesotho, Swaziland, Uganda and Zimbabwe. Similarly, as discussed elsewhere in this report, a decreased emphasis on new IT development should be balanced by an increased focus on making the existing systems deliver better results through enhanced training efforts, operational support and maintenance of IT systems.

10. **The senior management of the MoF appears to be aware of these challenges**. The Director of CEDSIF informed the mission of the need to counter-balance CEDSIF's role with institutions that enable a more process-oriented discussion of PFM reform to take place. There is a need to give more weight to the needs of operators and end-users of e-SISTAFE systems; to improve the quality of data input, reports generated and system integrity; and to invest in change management processes that strengthen organizational structures, business processes and the career development opportunities of financial managers. Such change management techniques have been developed in other countries, for example France (see Box 1). While Mozambique does not have the resources or capacities of an advanced country, a similar approach could be applied on a more modest scale.

Box 1. PFM Change Management Unit in France

Since the adoption of a new public finance law in 2001 (LOLF), France has initiated an in-depth modernization of its PFM system. An advisory unit in the Budget Directorate of the Ministry of Finance (MGFE) has been established to provide methodological and operational support to the central government in implementing PFM reforms in the following areas:

- Reengineering budget processes and financial operations.
- Reorganizing ministries' accounting, budget execution and finance functions.
- Standardized job descriptions for PFM functions.
- Measures to strengthen the financial management career stream.
- Managing a web-based "PFM Campus" that is a repository of regulations and operational handbooks on financial management, training courses and materials, and information on job opportunities in PFM.

Source: Ministry of Finance, France

11. **Finally, it is important that the reoriented PFM reform strategy be underpinned by a strengthened legal framework.** The mission understands that the government will propose to parliament that revisions be made to the SISTAFE Law during 2014. Some of these changes will be largely technical, dealing with issues such as budgeting for VAT refunds on a net basis, but the government has also stated its intention to include in the legislation a mandatory annex on fiscal risks in the annual budget, and to introduce a new legal framework for public accounting based on international standards (IPSAS). While the first of these items (fiscal risks) is fully consistent with the recommendations of the FTE, on the second (accrual accounting), the mission recommends in section V of Annex 1 that fundamental changes in the accounting framework be postponed until a thorough review of the costs and benefits of accrual accounting has been carried out.

11. **This suggests that the authorities might take a two-stage approach to amending the SISTAFE Law.** In 2014, the technical changes noted above could be made. Subsequently, however, the authorities might want to consider a more broadly based revision of the Law, on similar lines to the budget framework laws that have been recently enacted or are under consideration in countries such as Kenya, Lesotho, Namibia, Swaziland, Uganda, and Zimbabwe. Such a law would emphasize important goals and responsibilities such as the achievement of aggregate fiscal discipline and fiscal sustainability, rules and principles of fiscal responsibility, the role of strengthened budgetary institutions, the development of an effective medium-term planning and expenditure framework, upgrading the legal framework for public accounting, strengthening internal control, and the consolidation of financial reporting. The IMF would be able to provide support to the MoF in drafting a new Law, which could retain much of the structure of the existing legal framework,[3] while adding important new elements.

C. Recommendations

- Establish a PFM Reform Steering Committee, chaired by the Minister or Vice-minister that would include representatives of line ministries, provinces, and a selection of development partners. The Committee would meet twice a year to take decisions on the prioritization, coordination and sequencing of PFM reforms. The Committee would monitor reform progress and provide strategic direction to the overall reform process. It would also provide a forum to address user concerns and priorities.
- Create a PFM Reform Coordination Unit in the MoF, reporting to the Minister or Vice-Minister, responsible for supporting the Steering Committee on the coordination,

[3] The existing law is based on five sub-systems, namely: the state budget, public accounts, the treasury, state assets, and internal control.

prioritization and monitoring of PFM reforms. The unit could be staffed in part by transferring employees from CEDSIF's modernization unit (*Serviço de Organizaçăo e Modernizaçăo*), which currently has a complement of 35 staff.

- The new unit would work in close cooperation with CEDSIF and other departments of the MoF, and would form the secretariat of the Steering Committee. Under the supervision of the Steering Committee, it would be responsible, jointly with CEDSIF, for: (i) the preparation and monitoring of the PFM reform strategy, in coordination with the directorates of the MoF, line ministries, provinces and the development partners; and (ii) developing a change management program that would support the implementation of the PFM reforms.
- Consider upgrading the status of the SISTAFE Law to a modern budget framework law with a broader focus and enhanced fiscal and budget responsibilities for the MoF.

ANNEX 2: PROGRESS WITH E-SISTAFE

A. Review of Progress in 2013

1. **The objective of completing e-SISTAFE rollout in 2015 is entirely achievable**. That would represent a continuation of the pace of roll-out of e-SISTAFE to new UGBs in the last three years. To improve the use of e-SISTAFE, CEDSIF has contracted two resident technical staff for each province (one for hardware and one for operational support)

2. **E-SISTAFE has in the past year adopted a new Service Oriented Architecture (SOA).** The system was designed from the beginning as a modular system, but its technological implementation transformed it into a somewhat monolithic structure, complicating its maintenance, development, interoperability with other systems, as well as its operation.

3. **The architecture now implemented allows for sharing of services and will also allow, in the very near future, for sharing of data between modules**. This new technological orientation has brought improvements to the e-SISTAFE life cycle, preventing it from becoming obsolete.

4. **This new technological orientation will also allow, in the near future, e-SISTAFE modules, to be available over the internet**. For example, according to CEDSIF, entry of the proof of life statement to update the pensioner register in the budget execution module will be introduced as from 2015, and will be web-based.

5. **Given that this is a recent development, the benefits that the new e-SISTAFE architecture will bring to the development of the system as a whole have yet to be fully explored.** It will be important to take advantage of e-SISTAFE's new SOA architecture, which is now truly modular, and revisit the conceptual and business models of the state assets module (MPE) as well as the Human Resources Management System (HRMS or SGRH).

6. **E-SISTAFE's new architecture also allows for the adoption of a system for producing reports.** Access to e-SISTAFE information has been implemented on the public finance web-page of the MoF using a Business Intelligence (BI) tool. This tool (based on open source software PENTAOH) will allow any user to produce his or her own reports of data in e-SISTAFE, to the extent authorized. A set of standardized reporting formats will also be made available. The mission believes that this improvement will significantly benefit the users of e-SISTAFE.

7. **A provisional register of state employees has been developed (e-CPAE which inter-operates with e-CAF, the registry of all certified state employees).** It allows for the validation of payrolls produced by other salary payment systems still in use. In this way, duplicate payment of salaries to the same individual is prevented.

8. **Table 2 below presents an overview of e-SISTAFE Performance Indicators for various part of the budget process**. Table 3 at the end of this section provides a comprehensive review of e-SISTAFE modules.

Table 2: Performance Indicators for Evaluation of the Public Finance Management Reform Process

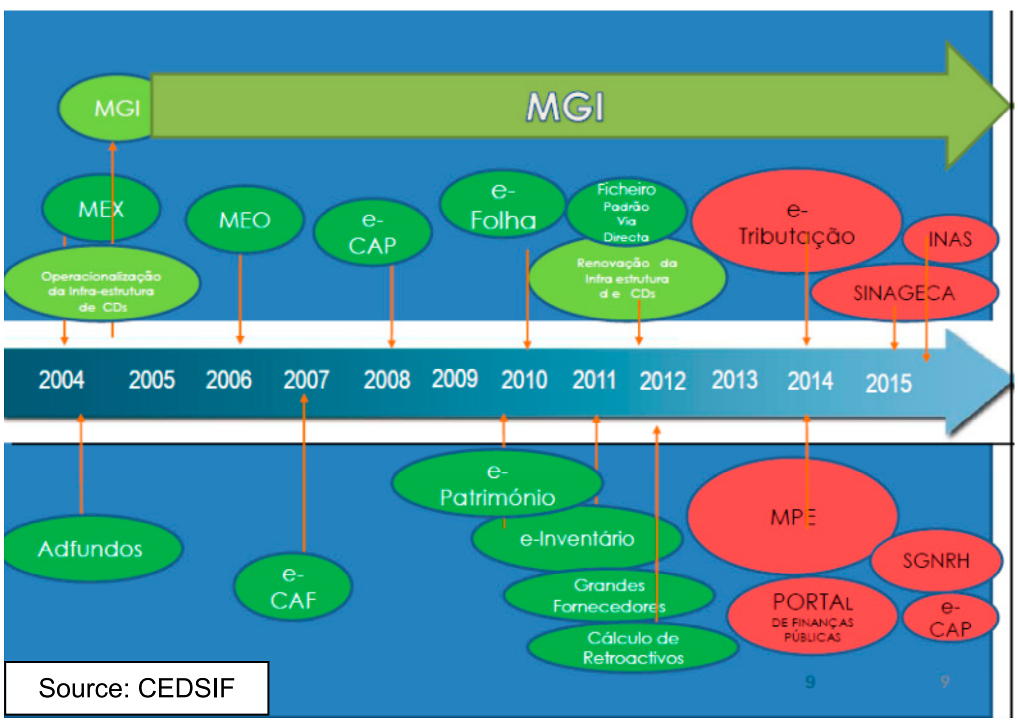
Indicator		2007	2008	2009	2010	2011	2012	2013
Budget preparation and execution	Percentage of revenue not included in the government budget	ND	ND	ND	ND	ND		
	Percentage of expenditure not included in the government budget	ND	ND	ND	ND	ND		
	Number of executing units using e-SISTAFE for budget preparation and execution, out of a total of 983	12	301	320	438	504	620	677
Financial execution	Percentage of expenditure executed directly through the CUT	11.49%	23.61%	31.40%	37.55%	42.22%	52.58%	58.61%
	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	ND	ND
	Number of funds of donors using the CUT-ME			1	13	13	ND	ND
	Balance of the CUT at year-end (thousands of meticais)	2,009,463	2,808,995	4,195,992	5,632,264	10,932,524	7.045.422	13.020.409
	Total value of treasury bills issued (90-day securities) in million MZN	-	-	-	20,000	21,500	21,000	28,760
e-SISTAFE	Number of entities that completed the e-SISTAFE rollout	245	301	320	438	504	620	677
	Number of responses to e-SISTAFE users via service desk (per day)	13	26	39	20	NA	21	25
	Number of line ministries using the sectional classification	0	1	1	0	0	No line ministry uses sectional classification	No line ministry uses sectional classification
	Number of active e-SISTAFE users	4,463	4,074	4,173	6,478	10,004	14836	18606
	Percentage of wage expenditure executed directly	2.73%	2.75%	3.47%	8.60%	15.77%	20.6%	38.47%
	Percentage of pension expenditure executed directly	0%	0.88%	0.30%	0.30%	0.29%	Central level Civil pension: 2.22% Military pension: 0.09%	Central level Civil pension: 2.09% Military pension: 0.13%

B. Analysis

9. **The overall development of e-SISTAFE has gone well over the past 12 months; however, some refocusing of development aims seems necessary.** In the mission's view, the highest priority of the reform process currently is to make full use of existing e-SISTAFE functionality. Some of the planned additions to the system seem more of the "nice to have" category than of the "need to have". Moreover, some of the IT developments proposed seem rather advanced and costly, and dependent on meticulous application. As the present functionality of the system is being used only partially, for example in relation to commitment control. We would suggest that the focus of CEDSIF activities could turn more to training and system operation and maintenance, and somewhat less to system development. The change advocated is one of degree, and certainly not intended to stop all system development. The mission does acknowledge that electricity and banking system availability do provide challenges to enhancing system functionality in some provinces and districts.

10. **The timeline for the development of the various modular components of e-SISTAFE is illustrated in Figure 1 below**.

Figure 1. Modules and Functionalities of e-SISTAFE, in Production and in Development



11. **The MPE (State Assets Module) conceptual and business models should be revisited.** Taking advantage of the new architecture, the processes relating to generating and maintaining the inventory should be separated from those relating to procurement. The focus

should be on the development of the modules already being produced (the catalogue of goods and services, catalogue of suppliers and e-inventory), and less on the development of the e-Procurement module. This public procurement platform stands on certified electronic-signature systems and certified time-stamp systems, not yet developed in e-SISTAFE. The development of these certified systems and their use by state authorities and by private contractors requires sophisticated skills and is not a priority. In addition, in relation to the MPE, the valuation of assets (historical and public domain assets) is not a priority and should be delayed.

12. **Registration of inventory items should be made compulsory.** This should be done through the functionality of the budget execution module (MEX) for all investment expenditure. The interoperability of the modules under the new e-SISTAFE architecture will enable automatic incorporation in the MPE of the assets subject to inventory, as data flow from the MEX to the MPE.

13. **The existing commitment functionality should be activated.** Commitment control is part of budget execution, and the commitment functionality would therefore best be integrated with the MEX, rather than, as currently envisaged by CEDSIF, with the MPE. This issue would be among those addressed in the review of the conceptual model discussed above.

14. **The HRMS conceptual and business models should also be revisited in the light of the new architecture.** The processes relating to monitoring of careers should be separated from those relating to payment of salaries. The mission would support the completion of the modules already in use (e-CAF and *e-Folha*) in preference to investing large amounts on the purchase of the Oracle HRMS system. This approach is currently being analysed by CEDSIF.

15. **There has been a significant delay in the development of the *e-Tributação* (e-Taxation) module.** The development and implementation of the Revenue Collection Network and the associated access to banking services, as well as of the Single Collection Document, should be accelerated. This recommendation has already been made in the reports of previous missions. These developments are important part of completion of the CUT and more effective cash management.

16. **The mission noted the evidence of compliance with the use of best practice frameworks related to IT governance at CEDSIF**.[4] This in line with recommendations of previous meetings.

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[4] These include the ITIL and CMMI frameworks, for which compliance at level 2 has been accomplished.

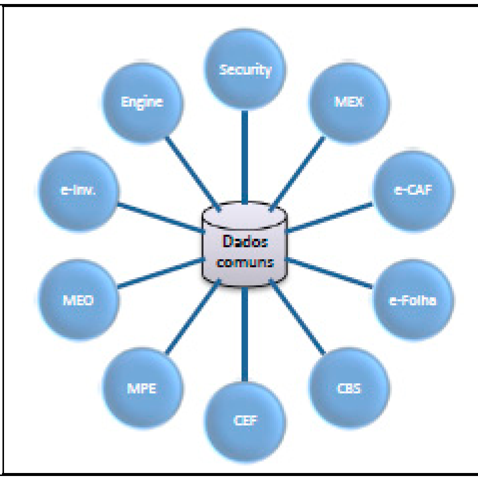
C. Summary of Recommendations

- Making full use of existing e-SISTAFE functionality is the highest priority in the coming years. The focus of CEDSIF activities should turn more to training and system operation and maintenance, and less to further system development.

- The conceptual and business models for MPE and SGRH modules should be revisited in the light of the new architecture.

- For the MPE module, CBS and CF catalogues and e-inventory should be developed as a priority project; e-procurement should not be considered to have the same importance or priority.
- The development and implementation of the Revenue Collection Network and the associated access to banking services, as well as of the Single Collection Document, should be accelerated.
- A special importance and priority should be considered in e-SISTAFE development to the registration and management of commitments.

Table 3: Status of the Technical Reform of SISTAFE and its Rollout at the end of 2013

Components	Current situation and trend over the short term	
e-SISTAFE development		The e-SISTAFE architecture has evolved into a SOA (Services Oriented Architecture), on the basis of which e-SISTAFE's modular structure will be ensured, along with its interoperability with other systems. At this time it shares common services between modules and it will shortly allow data to be shared between modules. Following this improvement, in the near future e-SISTAFE will become a web-based application. The benefits of this new architecture are still to be estimated but seem significant. Its implications for the design of some modules, like MPE and HRMS have yet to be explicitly determined.
SNPO	The conceptual model for the National Planning and Budgeting System has been completed, but not implemented. No further development has been made recently.	
MEO	Improvements have been introduced in the Module for Budget Preparation	
MEX	Functionality has been developed to allow the inclusion of commitment references in supply contracts. This functionality is not being well used by UGBs/UGEs and the contract pre-validation (*visto prévio*) by the TA asks for the expenditure line of the budget that supports the expenditure instead of proof of commitment. A checklist of the main steps of budget execution has been developed, to be validated by the Expenditure Validator (*Ordenador de Despesa*).	

Components	Current situation and trend over the short term
MPE (CBS) (CF)	State Assets Module – the conceptual and business models are complete and approved. The interoperability of this module with the MEX will enable 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 (CBS), as well as on the embedded classifier of public entities and expenditure. This interoperability is now ensured by e-SISTAFE's modular architecture. At this time, municipalities and public entities are using e-Inventory (a preliminary version of the MPE developed by the CEDSIF) for recording goods acquired, in order to complete the inventory in the General Account of the State. The CBS has been created and updated with the inclusion of Reference Prices. The Catalog of Suppliers (CF) has been created and updated. Information relating to the tax identification (NUIT) of the suppliers provided by the AT has contributed to this.
e-CAP e-CAF e-CPAE	Modules for Register of Pensioners and Staff (e-CAP and e-CAF) Profiting from the new e-SISTAFE architecture and the acquisition of new servers for the data-center, it will be possible by 2015 to run the proof of life application over the internet and update e-CAP and e-CAF. E-CAF interoperates directly with *e-Folha* and with e-SISTAFE for direct payments. A provisional register of state employees has been developed (e-CPAE which inter-operates with e-CAF). It allows for the validation of payrolls produced by other salary payment systems still in use. In this way, the duplicate payment of salaries is prevented
e-Payroll *(e-Folha)*	Direct payment of salaries is effectively preventing double payments, as it presupposes registration of the staff in e-CAF with records of single NUIT and bank account details. Preference has been given whenever possible to paying employees by using *e-Folha*, as this system allows for more rigorous control of what gets paid each month and to whom. By March 2013, the MoF should be able to pay all salaries (with the exception of those of the security services) directly to the beneficiaries and to have a clear categorization of the constraints that lead *e-Folha* to reject payment of the salaries of particular employees. That will allow implementation the solutions needed to achieve full use of this system by the end of 2014. In addition, the registers in e-CAF need to be verified for all employees through a proof of life audit, which could take place during the second and third quarter of 2014.
HRMS/SGRH	Human Resource Management System. The conceptual model has been defined and the business model is in preparation. These models should be reviewed by CEDSIF in the light of the new SOA architecture. The customization of Oracle's Human Capital Management (HCM) system as the new HRMS is under discussion. This system would integrate the salary payment of all civil servants and also monitor careers across the whole life cycle of these public agents. We suggest that the business model is split into two blocks: salaries payment and career management. The software already developed by CEDSIF (e-CAF, e-CAP and *e-Folha*) should be fully implemented and used instead of acquiring a new system.
MGI/ e-SISTAFE Portal	Information Management Module. The business model for e-SISTAFE portal is under discussion. The e-SISTAFE portal is already integrated in the Public Finance Portal. An open source software tool (PENTAOH) has been chosen to develop reports in real time. MoF technicians have been trained in the design of BI reports in order to develop the Public Finance Portal. This portal will shortly receive data in real time from e-SISTAFE (profiting also from its new architecture).
e-Taxation	Customizing of ETPM (Oracle's Enterprise Taxation and Policy Management system) Design has been completed for the IRPC and for IRPS modules

Components	Current situation and trend over the short term
	The estimates of remaining effort for e-Taxation have been updated. Its entry into production was planned for 2014, but there has been a significant delay in its development. Its implementation is organized per type of tax: VAT & ISPC, Q1 2013 (1st phase) Q2 2014 (2nd phase); IRPC, IRPS Q1 2015 Other taxes after 2015
NUIT	The NUIT taxpayer registration module has been developed and entered production in 2012.
JUE	Single Electronic Window Module. This module entered into production in the Port of Maputo in 2011, operating with two banks; in 2012 it entered into production at the seven main Customs posts.
GARE	Establishment of the unified collection document (DUC), in coordination with the AT (Tax Authority) and the DNT. 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 will 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 final stage, and will be implemented with the VAT and ISPC modules. Development is in an advanced stage for conceptual and business models and also for software implementation of the GARE. This component rests on the interoperability of the three systems: e-SISTAFE, e-Taxation and Single Window. The GARE will be implemented simultaneously with the entry into production of the VAT and ISPC (simplified tax for small contributors) modules of e-Taxation. The Business Model and the Common Procedures Module have already been drawn up. The development and implementation of the Revenue Collection Network and the associated access to banking services, as well as of the unified collection document (DUC), should be accelerated.
Rollout of e-SISTAFE	E-SISTAFE has been installed in 116 more UGBs. At present it is implemented in 677 UGEs. The process of e-SISTAFE rollout to the various organs and institutions of the state has translated into a very positive process of improved execution of the state budget by the direct payment route, which reached the level of 58% in 2013. The objective of completing e-SISTAFE rollout in 2015 is entirely achievable. In order to support the rollout of e-SISTAFE, CEDSIF has contracted two resident technical staff for each province (one for hardware and one to operate e-SISTAFE).

Annex 3: Completing Treasury Reforms

A. Expansion and Management of the CUT

Current Arrangements

1. **Progress in the roll out of e-SISTAFE continues to expand use of the CUT.** About 58 percent of expenditure was covered by direct payments through the CUT by the end of 2013, and a further 5 percentage points is planned for 2014. Of the total of 939 budget units (UGBs), 677 had access to the budget execution modules (UGEs) by the end of 2013, and there are plans to extend their number by 140 during 2014. Cash advances are still made from the CUT to UGBs that do not have access to e-SISTAFE, to pay transactions financed by donors that are not prepared to use the CUT for project expenditure, for payments made to suppliers in rural areas without bank accounts, and for petty cash payments. UGBs tend also to have bank accounts for collected own revenues. The defense and police sectors have to date resisted becoming part of the CUT payment system.

2. **The roll-out of e-SISTAFE to UGBs, and the widening use of *e-Folha*, have helped to reduce the number of government bank accounts held outside the CUT**. Although a substantial number of accounts were closed in 2013, many new accounts were identified; and there are reports also of line ministries opening bank accounts for various purposes without permission from the Treasury.

3. **There are no arrangements for overnight sweeping into the CUT of bank balances held by public institutions outside the CUT**. This is the case both for advances to UGBs, and for payments of tax held by the AT in commercial banks. The tax authority sweeps payments from transit accounts to the CUT once they have been attributed to taxpayer and tax.

4. **The proportion of donor financial assistance that passed through the CUT has continued to increase in 2013, but only slowly**. The proportion of programmatic support increased from 66 to just 68 percent, much less than had been targeted. A further modest increase is planned for 2014. Substantial project support continues to be outside the CUT.

Issues Arising

5. **The extension of the CUT continues to be a high priority for reasons of expenditure control, cash management and system integrity.** The Treasury should aim to have all government balances held at the CUT overnight and all payments made through the CUT except for petty cash needs. Balances outside the CUT represent an opportunity cost and well as a control risk and a credit risk.

6. **The categorization of the off-CUT accounts is unclear.** Those UGBs financed by advances should hold no more than three accounts: for salaries (a category that is rapidly diminishing); for expenditure operations; and for own revenues. This falls far short of explaining the present number of accounts. There are still many off-CUT project accounts

where donors have resisted inclusion in the CUT, accounts held by autonomous government agencies, and, it is believed, accounts that have been opened without the necessary approvals from the DNT. Many of these accounts are thought to be held by the defence and security sectors (the wages of which are not covered by *e-Folha,* see below). It should be made clear to autonomous bodies and to the security sector that participating in the CUT does not imply loss of budget autonomy or approved budget allotment. The MoF could provide written assurances to that effect.

7. **A Ministerial Order for the classification of these accounts has been in preparation for over a year**. However, it has been decided to refashion it to include rules for control, opening and closing of all state accounts; with a parallel circular insisting on the closure of those accounts not covering agreed purposes. The mission sees this as a very good step. A synchronous memorandum from the central bank Governor to the commercial banks would reinforce the message that these measures are binding on the banks.

8. **The DNT could, however, more proactively press for the closure of unnecessary accounts, and returning balances to the CUT.** One option would be a task force, comprising 2-3 officials (from the MoF and possibly the IGF) who would challenge UGBs directly, including by going to their premises. Part of their task would be to identify accounts where data were not otherwise available. The task force would need to have the protection of a prior ministerial (or presidential) circular**.**

9. **The MoF does not have access to the balances in the foreign currency CUT for cash management purposes.** However, all domestic expenditures are in MZN. Budget support grants and loans are converted into MZN, as are project expenditures made domestically. Foreign currency is therefore held against donor project payments to overseas suppliers, but not against the government's own debt servicing or other external payments. As required, the BM debits the MZN CUT, buying the foreign currency or drawing on the reserves. This policy is in line with good international practice, as it avoids the MoF having to hold cash buffers in a number of accounts. It remains important to bring donor contributions within the CUT for monitoring and control reasons even if the MoF has no access to the balances for cash management purposes.

10. **Payments of tax deposited at the commercial banks flow into the CUT through transit accounts in the name of the AT** (which may be in a commercial bank or the BM). But there are time lags. The banks have 48 hours in which to make the transfer (and they pay interest if they take longer). The opportunity cost of this delay is regarded by the DNT as a way of compensating the banks for their transactions costs, although no recent analysis has been done of the gains and losses from this trade-off. It is generally more efficient, as a way of aligning incentives with costs, to require banks to make the transfer immediately but compensate them for costs incurred. The DNT should reassess this option in the future, linked possibly with a competitive process between the banks; but it is not an immediate priority.

11. **There are more significant delays from tax payments held in transit accounts for reconciliation**. Under current arrangements, tax payers may deposit a payment without having first obtained the necessary code from their local tax office; after subsequently obtaining a code, they have to report it to the bank to link it with the payment. If taxpayers fail to do this, the balance is left in the transit account. The aggregate of such balances is substantial (an order of magnitude estimate was given of MZN 1 billion). This problem will be mitigated somewhat with the introduction of the e-Taxation module in e-SISTAFE, making it easier for the taxpayer to obtain the necessary code, although the full functionality, allowing online payments, will take some years to complete. In the first instance e-Taxation is being rolled out for VAT and ISPC (the simplified tax for small contributors).

12. **There should be no need to hold balances in transit accounts ahead of reconciliation**. The cash balance can be transferred directly to the CUT; accounting information should not depend on transfer of balances. The zero balanced transit account retains its accounting information; if any subsequent reconciliation requires a payment to the taxpayer, it can be made directly out of the CUT, if necessary through the transit account.

13. **The same principle should apply to own-revenue accounts**. There is a separation between the cash and the permission to spend or claim on resources. Even where the UGBs have control over their own revenues, they can be "banked" with the CUT. Where the sums are large such arrangements do complicate cash flow forecasting somewhat; and a large number of virtual sub-accounts may be needed in the CUT. The need to develop the processes means that transfer of cash balances of own-revenue accounts should be an objective for the medium-term.

14. **Until the need to make advances to some UGBs falls away, balances held outside the CUT (in banks or in other accounts at the BM) should be swept into the CUT at the end of the day**. As necessary, they can be returned the following day. There does not appear to be any technical constraint: the commercial banks have well-developed core banking systems (a few rural branches aside) and there is an effective RTGS system for the banking sector (although it is yet to be rolled out more widely).

15. **The weekly release of payment authority to budget units by the DNT in effect ring-fences that amount of cash in the CUT for the week in question.** That ensures that cash is available when the payment is made, but it is inefficient. It ties up cash unnecessarily for on average half a week; cash does not need to be available before the payment is made. Removal of this ring-fencing approach is not an immediate priority; but it should be removed as cash forecasting improves and cash is managed more actively (see below).

16. **No interest is paid on the CUT**.[5] At the same time no fees are paid by the MoF to the BM for the banking services supplied. As with balances at the commercial banks, it is best practice for interest to be paid. It improves accounting transparency and avoids the implicit cross-subsidy associated with administered rates. It also removes any incentive for the MoF to take economically inappropriate decisions in relation to its balances, such as placing funds in commercial banks with low credit ratings. Similarly, in the interests of transparency and proper financial incentives the MoF should pay transaction-related fees.

Recommendations

- The DNT should actively continue with its program to reduce the number of bank accounts outside the CUT (as necessary through outreach and explanation of Treasury policies (to UGBs and to autonomous bodies and the military).
- The release of circulars by the Minister (and the Governor) on government bank accounts should proceed without further delay. They should be followed up proactively by the DNT, possibly with a task force.
- All balances held outside the CUT (with the possible exception of donor-financed project accounts) should be swept into the CUT overnight, including from AT transit accounts and, in due course, from own-revenue accounts.
- The MoF should in the medium term develop policies to pay transactions costs to the banks, in return for immediate sweeping of balances from banks into the CUT; and to the BM in return for a market rate of interest on the CUT.
- As cash planning and management improves, cash in the CUT should not be ring-fenced as soon as payment authority is given.

B. Budget Execution

Current Arrangements

17. **Following Parliament's approval of the budget the DNO makes a "shadow cut" to budget allocations until the second half of the budget year**, withholding 15 percent of provision for wages and 10 percent of other categories from each UGB. These reduced allocations are included in the budget execution module (MEX). The shadow cuts are released, and as necessary reallocated, following a review in September, based on requests from UGBs, rates of execution and emerging requirements.

[5] Some interest is paid on the MoF's term deposits with the BM of its capital gains tax windfalls arising in 2012-13; see the fuller discussion in sub-section G below.

18. **The budget is executed by release of spending and payment authority by the DNT.** Within e-SISTAFE the system is formally well-defined. The regular cycle identifies the different stages of commitment, validation, and payment. But in practice no distinction is made between these different stages in the release of expenditure authority. Wages apart, the DNT releases commitment and payment authority at the same time, on the basis of requests from the UGEs. These requests are made monthly for each week of the following month, with authority being released weekly balancing requests and overall availability of resources.[6] Only when the financial quota is received are commitment, validation, and payment posted in e-SISTAFE. If any part of the expenditure authorization is not drawn on within 1–2 weeks, it is withdrawn by the DNT, and the UGB must resubmit its request.

19. **The DNT is exploring the possibility of separating the release of commitment authority from that of payment authority.** But it is concerned that, although aggregate commitments can be monitored in e-SISTAFE, once the relevant module is active, for control purposes there are inadequately precise links between the budget provision, the commitment and the payment, which could allow UGEs to over-commit.[7] The DNT has also noted that more reliance on commitment controls would require training of UGE staff given past experience of commitments that exceed provision, combined with enforcement and penalty measures. In mid-2013, the DNT adopted as a pilot the servicing of domestic debt, releasing commitment authority to the end of 2013. Before deciding whether to widen the use of earlier commitment authority, the DNT wants to evaluate the pilot.

20. **Substantial progress has been made in payroll security by increasing the proportion of salaries paid directly to the beneficiaries and specifically through *e-Folha*.** The roll-out of the *e-Folha* module will in the course of 2014 reach all central government institutions with the exception of the police, defense and other security services. The registration of staff in e-CAF has continued and some 75 percent of the 260,000 employees registered were paid direct to their bank account (through e-*Folha* or otherwise*)* by end 2013, with the balance targeted for end March 2014, although there will continue to be special cases.[8]

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[6] For payroll preparation, the DNT already does authorize the commitment limit beforehand, and the financial resources are then released when payment is actually needed. The constraint identified in other reports that expenses can be validated only after a release of payment authority was released in e-SISTAFE in early 2013.

[7] Most requests for budget release are made to the third level of economic classification, which is how most commitments would currently be recorded; whereas validation and payments are made at the sixth level.

[8] The special cases currently include some employees who have yet to receive the formal *visto* from the TA. It is unusual internationally, and no longer general practice among lusophone countries, for the supreme audit institution to have this role (it may instead by discharged by a civil service commission or similar). In any event for salary payment purposes such cases should be included in e-CAF and *e-Folha*.

Issues Arising

21. **Under current arrangements, the DNT cannot use commitment information to help forecast future resource requirements or the profile of expenditure**. Nor do officials in UGEs have any assurance that resources will be available to validate commitments, whether in aggregate (given the DNO's shadow cut), or when specific payments come to be made; and when resources are made available they have a limited time window to spend them. Officials instead have an incentive, as reported,[9] to commit to expenditure in advance of financial authority in the expectation that subsequent releases will allow them to pay the supplier. Hence the anecdotal reports of payment arrears which seem to be supported by the insistence from suppliers that advance payments are made given the risk that contracts are not honored or paid with great delay.

22. **Commitment controls are much more effective than cash controls to manage expenditure limits and avoid arrears.** They ensure that spending units enter into contracts, or other obligations, only if sufficient unencumbered balances are available (or likely to be available at the time of the payments). Commitment control is especially important, and information on commitments relevant, for expenditure on goods and services and investment.

23. **The DNT is rightly concerned that separating commitment and payment limits will create additional obligations, over-programming the budget**. For these reasons, the separation of commitment authority and payment authority should proceed selectively, with an initial focus on those sectors or UGEs that have a proven record of effective management. It should also be accompanied by:

- Training: managers must be made aware of their responsibility for complying with the established rules and that e-SISTAFE is not merely a payments system but allows for other types of control during the different stages of execution.
- A flow of information from the relevant UGEs of cash flow profiles and forecasts (see sub-section below)

24. **The DNT should widen the current pilot beyond domestic debt interest to include large investment projects in first instance**. Debt service is not a very useful expenditure category to test the usefulness of commitments, with the time of payments being known precisely and the size of payments depending only on future variation in interest rates. That should not delay progress with activating the commitment recording functionality in e-SISTAFE (which should be pursued independently of the timing of other modules of e-

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[9] See previous review reports and also "Developing Cash Management" (AFRITAC South, August 2012). That report also noted an evaluation by the IGF that had concluded that advances were often made to suppliers and service providers, although some steps were being taken to reduce these irregularities.

Assets). The possibility of further development of the commitment module should be kept under review, if suggested by evaluation of the pilots, but the present module may prove adequate, at least under the suggested selective approach.

25. **Over time, good performance in the recording and management of commitments, and an improved flow of cash flow information, should be accompanied by more flexibility in the release of budget authority**. Thus for those UGEs able to make a plausible monthly cash plan at the start of the year, the DNT should be prepared to release commitment authority on a quarterly basis consistently with the cash plans, and to give assurances about the availability of cash for payment. As the DNT's confidence in its cash flows forecasts develops, it should also be able to be more flexible in its release of payment authority. [10] This will have the further benefit of reducing the DNT's current weekly chore that requires it to release budget and payment authority for nearly 700 UGEs, as necessary or at times of cash shortages deciding which to reject or reduce. Releases specified normally to the third level of economic classification imply a tight corset around UGE budget execution (which may have contributed to the lack of respect given to the limits in the past).

26. **In relation to salaries, the measures implemented after the discovery of recent frauds have strengthened the reliability of the data, but need to be completed**. Preference should continue to be given to paying employees through *e-Folha*, which includes more rigorous control of what gets paid to whom. The registers in e-CAF need to be verified for all employees through a proof of life audit, which could take place during the middle quarters of 2014; and the measures needed to ensure the full coverage of *e-Folha* should be implemented by the end of the year.

27. **Further efforts are needed in the medium term to ensure integrity in the payment of salaries and pensions**. The security bodies have their own payroll system and request monthly advances of funds for salary payments. The register of employees in e-CAF should be extended to these bodies, starting with the police, with a view to their also being covered by *e-Folha.* The development of a Human Resource Management System could provide greater security if implemented and maintained meticulously; but it is a very substantial project to develop and operate and for that reason its acquisition should be a lower priority. The mission would see this as a medium- to long-term objective. Reform is more urgent in the development of a registry and payment module for pensions, which are currently paid through fund advances.

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[10] The IMF/AFS could contribute to a more detailed route map if requested.

Recommendations

- Commitments should be reported, and controlled, in e-SISTAFE when they are made. But the separation of commitment and payment authority should proceed selectively. It should also be accompanied by a training program and a flow of information from the relevant UGEs of cash flow profiles and forecasts
- The DNT should widen the current pilot beyond domestic debt interest. But that should not delay activating the commitment functionality in e-SISTAFE, which should be pursued independently of other modules in e-Assets.
- Over time, good performance in managing commitments and the flow of cash flow information should lead to more flexibility in the release of budget, and subsequently payment authority.
- In relation to salary payments, the measures implemented after the discovery of recent frauds need to be completed. The register of employees in e-CAF should be extended to all employees, initially those excluded for technical reasons and then to those of security bodies with a view to their also being covered by *e-Folha.* A registry and payment module for pensions should also be developed.

C. Internal Control

Current Arrangements

28. **The state audit system comprises two systems**: internal audit under the responsibility of IGF and institutionally part of the MoF, and external audit undertaken by the TA, which is independent from the government. All sector ministries and some provinces have units reporting within the sector that variously have inspection, compliance and internal audit responsibilities. Mostly these units are still focused on inspecting sectoral outputs (i.e. school and health inspectors), but they are gradually being focused more on audit activities. They have their own activity plans, although the IGF suggests that their quality is variable. The IGF is developing a model that would give it a stronger coordination role in relation to these units, as well as setting standards and driving training.

29. **The TA seeks to audit all public institutions on a 2 year cycle**. It is developing a performance audit capability although this is currently limited. Reports on the state accounts are presented to Parliament by November each year; a tighter timetable that would allow the audit report to input in budget discussions is not possible according to the TA without more timely completion of the CGE (currently in May) by the MoF. There is a substantial backlog in Court judgments on the findings and conclusion of the audit reports of individual government entities. Officials are recommending an increase in TA capacity, including in the number of senior judges.

30. **Within the UGEs, there is a formal separation of execution and control.** Each payment is subject to scrutiny by an internal control agent (ICA), appointed by and reporting to the head of the UGE. The IGF has been concerned by the risks that these officials are not

truly independent and subject to administrative pressures, and has sought to develop procedures that would strengthen their position.

Issues Arising

31. **There seems to be a good coordination between the IGF and the TA over respective responsibilities and the sharing of reports although capacity is still low in both institutions**. Of potentially greater concern is the position of the ICAs and the risk (anecdotally supported) that they are in practice unable to stand up to their senior managers and prevent e.g. contracts being agreed without commitment authority, and payments made in advance of delivery or attributed to non-applicable budget lines. The internal audit function in sectors and deconcentrated units is still at an early stage of development and quality and independence is reportedly quite variable.

32. **There are different models for the strengthening the position of the ICAs**:

- 1: Ensuring greater accountability of the heads of the UGEs, with stronger ex-post audit, including by the IGF, and enforcing reporting transparency. The formal role of the ICAs would lapse. That is a possible model, in place in some advanced economies, but conceptually different from the one currently operating and arguably not suited to countries such as Mozambique with different developmental, political and economic characteristics.
- 2: Expanding the reporting lines of the ICAs so that they report equally to the IGF as well as the head of the UGE.
- 3: Appointing the ICAs as officials of the MoF/Treasury; this would give them an entirely different status, although it would complicate their day to day management. Historically, this model was an integral part of the PFM system in some continental European countries, and at least in some respects is still used in parts of Latin America and francophone Africa.
- 4: Strengthening the sector inspection/audit units and giving the ICAs access to those. That would be a lengthy task, and would be effective only if those units would also have some independence from management.

33. **The choice may depend on how the role of the IGF develops in relation to the sector units.** If the units' audit capacity were to develop sufficiently over time and their independence assured through a stronger role for the IGF in setting standards and ensuring quality, the fourth option might prove the most attractive. But that could only be achieved over a long period. At the present time, the MoF should consider option 2 or 3.

Recommendations

- The MoF should address options for the strengthening the position of the ICAs with some urgency to strengthen the integrity of the PFM system, by expanding their reporting lines to the IGF or appointing them as MoF officials.

D. Cash Flow Forecasting

Current Arrangements

34. **At the start of the financial year, the DNT prepares a monthly cash plan.** For revenue, the AT prepares a profile of its agreed budget target. Donors provide an estimate of their commitments and disbursements, but these highly uncertain. For expenditure, wages and debt interest, flows are largely predictable; for other expenditure the DNT draws on the outturn profile of the last three years. Profiles provided by most sectors and UGEs are thought to be of poor quality, often being a simple division by 12.[11] This plan is a largely static document, which undergoes few amendments during the year, unless there are changes in revenue forecasts.

35. **The DNT prepares each month a cash flow projection for the following month**. It is broken down by week although the focus is on the week ahead. It incorporates recent information on revenue receipts, the requirements of UGEs reported in e-SISTAFE and any new information from sectors. These forecasts, which are passed to the BM, are discussed at a weekly meeting chaired by the Minister at which decisions are made on the financial quotas to be released in the week ahead, and/or T-bills issued by the BM that will be hypothecated to the MoF.

Issues Arising

36. **Cash flows forecasts are essential not only to facilitate orderly and less restrictive budget execution, but to devise the strategies for smoothing the cash flow profile**. In this respect there is a difference between programming and forecasting. Programming focuses on controlling the spending consistently with cash availability to deliver the budget. The emphasis of forecasting is on what "will" happen" if line ministries are allowed to execute their budgets optimally, not what "should" happen according to restrictions or targets imposed by the Treasury. Cash forecasting tries to ensure that cash is available when required, with no risk of cash rationing, and minimising use of cash over the period ahead. For these reasons, and to avoid game playing from spending units, cash flow forecasting is often managed separately from budget execution.

37. **Forecast information is usually needed for some period ahead, at least three months is seen as good practice**. Timing of future peaks and troughs must be identified to make decisions about the maturity of required borrowing or lending; but it also gives the cash managers time to plan changes in budget execution if there is an emerging problem, and not just force arrears upon suppliers. In Mozambique's case, the aim should be to develop cash flow forecasts for each week extending three months ahead, (although initially it might not

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[11] Functionality for cash flow planning within e-SISTAFE has not been used. It was overtaken by the decentralization program and the DNT now relies on paper submissions from the sectors.

be possible to prepare weekly forecasts for months two and three of any three month period), These weekly forecasts looking three months ahead should be rolled forward weekly or every second week. In time daily forecasts will be required.[12]

38. **An extended development process will be required, although some of the building blocks are in place**. Forecasts require a number of sources:

- Wages, transfers to municipalities and debt serving should be known to the day by UGEs (and the dates should be specified in advance by them).
- Data on past expenditure patterns, although care is needed where those patterns have been constrained by restrictive release polices.
- Updated cash profiles and commitment information in e-SISTAFE, for investment and similar spending (see above), although the uncertain lags between commitment and payment make this an incomplete source.
- In-year forecasts from the AT and large UGEs (or sectors and provinces), collected systematically (and separately from budget execution reporting). Large donors and managers of large projects should also be asked to supply regular updates of projections. This direct informal information from those closest to the activity is often the most useful.
- Prior notification from UGEs of large payments

39. **Development of cash forecasting will require substantial capacity building in the MoF, ATs, UGEs and sectors.**[13] It should be stressed that the gathering of forecast information is often an informal process. The cash managers in the DNT will need to build links with their opposite numbers at technical level in other units. Similarly it is likely be sensible, for at least for the moment, to continue to collect forecast data outside of e-SISTAFE and in Excel; such data do not have to be of accounting quality, immediacy is more important.

Recommendations

- The DNT should build cash flow forecasts extending at least three months ahead and rolled forward frequently.
- To support this, the DNT should develop of program of forecast capacity building, including within the AT and large spending units.

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[12] The BM, which seeks to manage the monetary base to a daily target, has expressed concern that current weekly forecasts give it insufficient information on the daily pattern of future government flows.

[13] This could be provided through IMF/AFS if requested

E. Cash Management

Current Arrangements

40. **The MoF does not currently actively manage its cash flow**, in the sense of seeking to enable unrestricted budget execution through borrowing and lending transactions in the money market. This would also result in smoothing variations in the balance of the CUT. It is presently able to borrow short-term on an occasional basis when it forecasts an emerging cash flow constraint. It does so by accepting liability for some of the Treasury bills (T-bills) issued by the BM for monetary policy purposes.[14]

41. **The money and debt markets in Mozambique are not yet well developed**. Substantial amounts of T-bills are issued by the BM to drain liquidity. The BM also uses repos in its open market operations. The MoF has published a medium-term debt management strategy and an annual financing plan. But only very recently has it been able to auction government bonds, and then for only short maturities. The development of a yield curve is handicapped by a different tax treatment of bonds and bills. These and other market development issues are to be addressed under the "Financial Sector Development Strategy, 2012–21" as well as a World Bank program.

Issues Arising

42. **The development of more active cash management is an important objective for the Treasury with which it can make a modest start in the coming years.** As well as contributing to smoother execution of the budget it will allow the MoF to operate with lower average cash balances, saving costs, and support monetary policy by reducing the impact of government cash flows on market liquidity.

43. **Development of the capability will extend over a period**. The pace will depend on both the development of cash flow forecasting and of the money market. The first step is likely to be greater use of T-bills in such a way as to smooth the larger variations of cash flows ("rough tuning"). That could operate under the present arrangements, or it could be driven more directly by the MoF (using the BM as agent). But under either option, T-bills should continue to be used for both cash management and monetary policy purposes to avoid fragmenting the market. The authorities should, however, be much more transparent in indicating to the market for which purposes T-bills are being issued. Other matters that will need to be addressed include the MoF's own capacity, the close coordination between debt and cash management, and the wider mode of interaction with the BM.

[14] The MoF was able to maintain its balance in the CUT within a range of MZN 6–16 billion in 2013 (a monthly average of MZN 11.7 billion with a standard deviation of MZN 3.1 billion). It made rather more use of T-bills than in previous years, with the stock hypothecated to the MoF varying in the range MZN 5–11 billion of a total stock of MZN 29 billion at end 2013.

44. **The question arises as to how unusually large cash inflows (such as those arising from windfall capital gains in 2012 and 2013[15]) should be handled from a cash management perspective.** Where such inflows are not part of expected budget revenue, and thus not available in the short-term to finance additional expenditure, they would normally be managed separately from the day to day management of cash flows. Cash that is structurally surplus, i.e. over and above the cash buffer needed to cope with unanticipated revenue shortfalls, should be managed with a longer horizon. Depending on the fiscal policy decision to use this surplus in the coming years or alternatively save it for the long-term, the cash management approach would range from what might be called a "cash reserve fund" to a long-term sovereign wealth fund. The former would probably be held in a separate account in the central bank (which could–under strict rules–be borrowed from on an in-year basis). The latter would probably require an arms-length investment management company supervised by the MoF and central bank, guided by a legal charter. Discussions on cash management aspects will thus to a large degree depend on the purpose for which excess funds will be used.

45. **In Mozambique the capital gains windfall account could be developed into a stabilization fund.** It could be used to support the budget in times when revenues are lower than expected and the fund would be grown in years that revenues are higher than expected. A stabilization fund should be developed, however, with clearly defined rules, set in law, on in- and outflow calculations. Stabilization fund resources would normally be invested overseas; any domestic investment would in effect add to the impact of the government's own budget, vitiating the purpose of the stabilization fund; and the still underdeveloped domestic securities market would make it difficult to hold domestic financial assets without further complicating monetary policy operations.

46. **To date these sizeable, one-off windfall gains have arisen in foreign currency and are held by the government with the BM in a foreign currency account which is separate from the CUT.** That is appropriate; the deposits should be separate from the foreign currency CUT which is linked to projects and will be drawn against as part of budget financing. It also means that in practice the BM is deciding where this windfall is invested, taking account of its reserve management and monetary policy objectives. The BM is paying interest to the Treasury; but this should be at a full market-related rate for the relevant term. Were these deposits sustained over time, or continue to grow, there would need to be a wider dialogue with the BM about where they are invested by whom and to what objectives.

[15] Some USD 800 million in total in 2012–13, with a further USD 500 million in prospect in 2014.

Recommendations

- The MoF should design a project plan, and the prioritizing and sequencing of the related activities, for moving towards moving towards more active cash management. This plan should be integrated with other financial sector development work.
- Work with the BM to set market remuneration rates on domestic and foreign accounts held at the BM depending on maturity of the deposits.
- Develop cash and/or investment instruments for excess cash reserves aligned with their fiscal use.

ANNEX 4: IMPROVING THE INTEGRATION OF PLANNING AND BUDGETING

A. Current Situation

1. **There is a multiplicity of planning and budgeting instruments in Mozambique (Box 2).** All of the instruments listed in the box are prepared by the MPD, with the exception of the CFMP (which is prepared jointly with the MoF) and the annual state budget (OE). In theory the government operates under a unified and integrated planning and budget formulation system, and all the instruments and documents are interrelated, but in practice the level of integration is less than optimal leading to inconsistency between instruments. None of the planning documents, except some sectoral plans, the Integrated Investment Plan (IIP) and the Medium-term Fiscal Framework (CFMP) provide quantitative information on the cost of government activities, programs or projects.

Box 2. Planning Instruments/Documents in Mozambique

2025 Vision (Visǎo 2025). This long-term plan aims to reflect the consensus of all political parties and civil society organizations, including a focus on the MDGs.

National Development Strategy. This long-term strategic plan is prepared by the MPD and the latest iteration (ENDE 2015-2035) has not yet been approved by the Council of Ministers (CoM). The draft strategy is mainly articulated around the idea of "structural transformation" with a focus on industrial development.

Five-year Government Plan (PQG). The PQG is linked to the electoral cycle. It is structured as a series of objectives and priority actions of the government for each sector, but without providing a clear link between these two elements.

National Poverty Reduction Strategy (PARP). The PARP is a medium-term plan setting out activities to be given priority by the government in reducing the poverty level and achieving the MDGs, it is not clearly linked to PQG, however.

Sector and provincial plans. These plans are prepared by line ministries and provinces, setting out their medium-term objectives and activities. The plans are designed to be consistent with the overall objectives and targets set out in the PQG. In some cases they provide tentatively costed investment projects and programs.

Economic and Social Plan (PES). The PES accompanies the budget document each year, and is prepared by the MPD with sectoral inputs to a parallel timetable. It presents a detailed list of activities to be carried out by sectors, sets out indicators for monitoring progress, and establishes a link between the strategic plans of the ministries and the objectives set out in the PARP.

Medium-term Fiscal Framework (CFMP). The CFMP guides the planning and budgeting process with medium-term estimates of revenues and expenditures at an aggregate level and serves as a basis for defining budget ceilings.

Integrated Investment Plan (IIP). A new planning instrument, introduced in September 2013, that sets out a list of prioritized investment projects, initially for only 20 projects.

Annual state budget (OE). In theory, the OE contains the funding sources and cost of projects and activities needed to achieve the targets set out in the PES. In practice, the relationship between the two exercises is less clear.

2. **Until 2004, planning and budgeting were under the direction of the Ministry of Planning and Finance**. Coordination between the now separate MoF and MPD remains quite close at the working level but, as discussed below, there remain issues concerning the de facto existence of parallel processes for preparing the budgets for capital and recurrent spending; lack of connection between the medium-term fiscal framework—which is the responsibility of the MPD—and the annual budget preparation process; and divided responsibility for macroeconomic and fiscal forecasting between the two ministries. Consideration should be given to strengthening further the cooperation of the two ministries to help manage these issues at an institutional level.

3. **The planning and budget processes follow procedures that are clearly defined in law, and are systematic and orderly**. The CFMP specifies the macroeconomic assumptions to be used in preparing the budget proposals and sets spending ceilings for line ministries and provinces. It includes fiscal data for the latest completed fiscal year, for the current fiscal year, and projections for the coming budget year and the following two years. SISTAFE regulations state that the CFMP will be a rolling scenario, updated annually in each budget year. The MoF is responsible for budget preparation, based on information received from line ministries, the provincial governments (after consulting the districts) and the autonomous institutions. The timetable for budget preparation is set out in the SISTAFE Law and, despite occasional delays, is generally complied with.

4. **The figures in the CFMP are based on top-down projections of revenues and expenditures**. The document has been criticized for including unreliable projections of spending in the out-years. Moreover, the projected out-years have little connection to next year's estimates. In a sense the CFMP is started anew each year. It is not "rolled over" properly so that changes in estimates can be understood. Multi-year expenditure ceilings set in the CFMP are approved by the Council of Ministers (CoM) in May, and are included in the budget circular that launches the annual budget preparation process. Again, the out-year ceilings have little relevance, if any. The CFMP is updated in August to take into account the most recent macro-economic outlook. The CFMP does not seem to be anchored in a clearly defined statement of fiscal policy objectives and targets, and an analysis of fiscal sustainability. Of course, at present such analysis is provided by the IMF. But in the coming years the MoF should be building its internal capacity in this area.

5. **The annual budget is mainly prepared and executed according to an economic classification of expenditures**. It is presented and controlled in a very detailed manner with a large number of budget lines. A program classification supports the allocation process, but is still mainly used for presentational purposes, and has no role in budget execution. The budget is compiled by aggregating budget submissions of budget users formulated in economic terms, and the same classification is used for executing the budget. Capital and recurrent expenditure proposals are prepared by different units in the line ministries and provinces, and have only a loose connection with each other. The economic classification

currently in use does not classify capital and recurrent spending according to the IMF's GFS standards.

B. Assessment

6. **In the following sections we discuss a number of policy measures that could be taken by the authorities to strengthen the integration of the planning and budgeting processes.**[16] The discussion is divided into the following sections: (i) rationalization of the number of planning documents; (ii) strengthening of the IIP and the public investment management process; (iii) improvements in the CFMP and its links to the annual budget process; (iv) strengthening the credibility of the annual budget, including through introduction of program budgeting over the medium term.

Planning instruments/documents

7. **The number of planning instruments in Mozambique is considerably higher than in some other African countries.** In addition, the planning documents generally include little quantitative information on targets, outputs, and the cost of activities and projects. In South Africa, by comparison, there are only three planning instruments—the long-term National Development Plan (NDP) covering a ten-year period; the five-year Strategic Plan, linked to the electoral cycle and including information on the cost of development projects; and Annual Performance Plans (APPs), also covering a five-year period, and providing specific information on the activities, programs, outputs and performance targets of each department (ministry).[17] The Strategic Plan and the APPs give effect to the long-term NDP which is prepared by the Ministry of Planning. The government of Mozambique might want to consider streamlining the number of its planning instruments on similar lines. These could comprise:

- one long-term planning instrument, based on the existing ENDE;
- one medium-term instrument at the national level, covering a five-year period, perhaps combining the PQG and the PARP;
- medium-term plans for each ministry and province linked to the national development plan; and

[16] The MoF and the MPD informed the mission that they were working on a conceptual framework for integrating work on planning and budgeting. This document, however, has not yet been approved by the government and was not seen by the mission. Nevertheless, the ideas and recommendations set out in the present report may help inform the government's assessment of changes that could be made in this area.

[17] The APP for the National Treasury (Ministry of Finance) of South Africa, for example, includes detailed information on the Treasury's directorates, departments and (ten) programs, its strategic outcomes and key performance indicators. See http://ww.treasury.gov.za/publications/strategic%20plan/default.aspx.

- a strengthened medium-term expenditure framework, combining the CFMP and the IIP, supported also by the Debt Sustainability Analysis (DSA), and integrated closely with the annual budget preparation process (OE).

8. **The annual social and economic plan could be converted into an explanatory memorandum to the budget.** It presently converts the government's five year plan and the sector plans into a detailed list of activities to be carried out during the budget year. However, its relationship with the budget is not exact, which makes it less useful. It is important that the planning process should continue to guide resource allocation through the budget, but the linkages between planning and budgeting would benefit from further streamlining.

Investment planning and the IIP

9. **The IIP is a new instrument that was approved by the CoM in September 2013, and currently only includes 20 infrastructure projects in a few selected fields (energy, transport, water and agriculture).** It is intended that the coverage of the IIP should be gradually extended to cover a much wider range of projects. In addition, with support from the World Bank, DFID and AFRITAC South (AFS), the government has taken some preliminary steps to improve the management of public investment projects. These steps include the establishment of an Inter-ministerial Evaluation Commission (IMEC); the preparation and dissemination of a public investment manual containing criteria for the selection and evaluation of projects (and two sub-manuals for roads and rural electrification); and some initial capacity building initiatives. These initiatives, however, seem to have made relatively little impact as yet, and further efforts will be necessary to establish a disciplined selection and prioritization process both at sector and provincial level.

10. **The mission has the following suggestions for strengthening the IIP process, and increasing its impact on decision-making:**

- Include in the IIP a discussion of its relationship to and consistency with the strategies and activities set out in the other key planning documents, in particular the PQG and the sectoral plans.
- Discuss the alternative financing modalities that are available through the budget, external grants and loans, and public-private partnerships (PPPs) or concession arrangements, and how this impacts on the selection of projects.
- Extend the coverage of the IIP to include all new investment projects proposed by the government (above a certain financial threshold), whatever the source of finance that achieve a satisfactory economic, social and environmental rate of return, and satisfy any other criteria set by the government.
- For the projects listed in the IIP, provide information on their full cost, the breakdown of costs between capital and recurrent expenditure, their projected economic and social rate

of return if available,[18] and the timetable for implementing the project, with a profile of costs incurred on a year-by-year basis.

- Provide a division of projects into those that should be given priority for budget financing, those that are expected to be financed externally, and those that are potential candidates for private financing (subject to further analysis by the MoF of the value for money of the project, and any guarantees, contingent liabilities and other fiscal risks incurred).
- Include separately a list of projects on which construction work has commenced, their financing costs, and the profile of disbursements over the remaining life cycle of the project. This list could be broken down into sub-categories of projects financed through the budget, by external finance and by PPPs and concession agreements.

11. **The government should consider developing the IIP with a medium-term time horizon.** This would require line ministries to develop a portfolio of projects to be implemented over the next three years. Such early identification would allow more time for adequate evaluation and costing of projects and their further development. Reinforcing the government's capacity in this area should be given priority, building on the technical assistance already provided by the World Bank and AFS.

12. **As discussed below, integrating the IIP into the CFMP could increase the relevance of both instruments for government decision-making**. The joint instrument would enable the MoF at the same time to: (i) set ceilings on capital and recurrent spending over the medium term; (ii) make decisions for the medium-term on large investment projects that can be accommodated by the budget; and (iii) discuss with development partners and the private sector options for financing projects outside the budget, while ensuring that investment selection and appraisal criteria are respected, fiscal risks are taken into account, and the decision making process is transparent. Implications for accounting policies and the analysis of fiscal risks would also need to be taken into account, as discussed in Sections IV and V respectively of Annex 1.

Strengthening the medium-term financial framework (CFMP)

13. **The CFMP presently has most of the characteristics of a fiscal outlook instrument**, and is compiled from estimates prepared by the MPD, with support from the MoF but with limited consultation of line ministries. Macroeconomic and fiscal forecasting in a dynamic economy such as Mozambique is difficult, and forecasting capacity in the MPD is weak. On the revenue side, forecasts have the characteristic of targets (an assumption is

[18] This is a complicated exercise in any country. Cost-benefit analysis can be substituted by indicative parameters for project feasibility and impact. It is important, however, to subject all proposed projects to the same evaluation framework.

made that revenues increase each year with 0.5 percent per year) rather than actual best estimates, which makes them less useful especially over the medium-term. Institutional strengthening of macro-forecasting will be important in the coming years, especially as the guidance of the IMF on macroeconomic issues decreases in a post-PSI environment. The small macro unit in the MPD should be merged with the fiscal forecasting unit in the MoF, irrespective of the possible future reintegration of the two ministries. The BM should support this unit through active participation in its workagenda.

14. **The lack of reconciliation of "bottom-up" estimates of expenditure prepared by the sectors and provinces with top-down forecasts prepared by the MPD and MoF is the main reason for the weak link between the CFMP and the annual budget process.** Line ministries do not yet have the capacity to produce realistic medium-term estimates of their budget expenditure. There is no medium-term baseline of approved expenditure or costing of new expenditure proposals. Because the cost of baseline spending and new spending proposals is not well estimated, top-down estimates will tend to diverge from the actual budgetary requirements of the sectors and provinces.

15. **The first step in improving the quality of the CFMP could be the development of bottom-up estimates of capital investment.** As proposed above, such estimates could be prepared in the context of the IIP. The compilation of reliable estimates of the cost of investment programs by sector, set within agreed expenditure limits, would increase the credibility of the fiscal estimates in the CFMP. Importantly, if the IIP selection process is used for approving investment projects on a multi-year basis (tentatively for the out-years), the importance of the CFMP as a decision-making instrument would increase considerably, and deviations from budgetary outcomes would decrease. The ceilings set for recurrent expenditure in the CFMP could also be linked to the allocations for capital spending, thus increasing their relevance and credibility.

16. **The CFMP is not anchored by a framework for fiscal targets or rules.** In the coming years the MoF will need to develop a framework for setting annual fiscal targets with a medium-term time horizon. This could be done based on fiscal sustainability analysis, but should also take into account fiscal stabilization considerations. Many resource producing economies have introduced fiscal rules to mitigate the impact on the budget of the volatility of the prices of natural resources through some form of rule-based stabilization. Of more immediate concern is the introduction of rules on how to deal with one-off windfall revenues, such as the large capital gains-related windfall revenue of some USD 1.3 billion over the 2012–14 period, as discussed in the section on cash management. Windfalls of this magnitude cannot only undermine the credibility of the fiscal framework, they are also potentially disruptive to monetary policy. Well-defined rules need to be set about the use to which windfalls will be put and over what period. In Mozambique's case it might require that windfall revenue only to be used gradually, spread out over a number of years for investment expenditure, in the context of the medium-term IIP as discussed above.

17. **International experience shows that the credibility of the annual budget is an important precondition if the medium-term expenditure framework is to become relevant for the strategic allocation of resources**. Satisfying this condition is usually a gradual process. Mozambique is in a dynamic phase of its development, and planning and budgeting instruments need to respond with flexibility to changing circumstances. In the mission's view, the CFMP will remain mostly an instrument for making forward projections of fiscal aggregates over the coming years, rather than a medium-term expenditure framework (MTEF) which in advanced countries has become the main instrument for making decisions on resource allocation, essentially replacing the annual budget in this role. The limited role of the CFMP is, however, still quite useful. Gradually improving the quality and reliability of the medium-term fiscal forecasts included in the CFMP will establish a basis for the eventual development of an MTEF.

Annual Budget Process and Introduction of Program Budgeting

18. **The annual budget still has many elements of an input based, incrementally developed estimate of expenditures**. This is certainly the case for recurrent expenditures. The capital budget is developed on a project basis. Projections of both recurrent and capital expenditure are guided by planning objectives to some extent, and the development of a program classification has helped strengthen the linkage between the government's policy objectives and the planned budget. Programs are presently used to some extent to reallocate expenditures. The use of the program classification for integrating recurrent and capital expenditure should be strengthened in the coming years.

19. **The principal weakness of the annual budget is that it is not always adequately costed**. This is in part due to technical issues, but to a larger extent reflects that decisions on expenditure prioritization are often pushed out to the budget year and resolved only through in-year budget reallocations. The mission was informed that both the MoF and line ministries were aware that budget allocations did not always cover expected costs. Cautious revenue assumptions also contribute to the lack of credibility of the budget. As revenue targets are commonly exceeded, the precise costing of expenditures becomes less important. While some degree of prudence in revenue estimation is good practice, the MoF should limit its use of conservative estimates so as not to encourage line ministries to anticipate that more resources will be made available during the budget year. This is not necessarily done through supplementary budgets as the powers of the executive to reallocate across budget lines and even to increase expenditures unilaterally is considerable.

20. **Uncertainty about donor funding also weakens the budget preparation process**. While much of the financial support provided by donors is channeled through the budget, that is not the case for project finance. In cases where the anticipated amount of project funding does not materialize or arrives late the government is forced to make sizeable adjustments to the state budget. This uncertainty is magnified over the medium-term, and reinforces the lack of credibility of the CFMP. The government should continue to insist on a

medium-term support framework with the donors that ensures timely commitments and disbursement.

21. **Program budgeting can be an important tool for better aligning the budget with strategic priorities**. The mission did not assess the program classification in detail, or its costing methodology. In general, however, program budgeting only becomes a reliable tool for expenditure planning if it is also used for managing and controlling expenditure. As long as the program classification is mainly used as a presentational tool, the interest of spending ministries will remain focused on line item allocations. Before the program classification can be used for budget execution, substantial capacity building will need to take place in the budget departments of line ministries to allocate program costs accurately. The functionality of e-SISTAFE may also need to be expanded. In the mission's view, the introduction of program budgeting as a budget management tool could start in three or four year's time. In the meantime, the MoF should focus on strengthening the basic budget process in the areas discussed above

C. Recommendations

- In line with developments in some other African countries, consider reducing the number of planning instruments to three or four instruments to increase consistency across instruments, while also increasing the amount of quantitative information (e.g., on the costs of government activities and projects, and the outcomes and outputs of these activities) they contain.
- Progressively increase the coverage and breadth of information included in the IIP. Focus on identifying a prioritized list of projects that can be financed through the budget over the coming three years.
- Integrate the IIP and the CFMP into a single instrument/document, thus reinforcing the usefulness and impact of both in the resource allocation process.
- Continue and intensify the process of capacity building on public investment management, giving due weight to change management issues—such as strengthening institutions, business processes, HR management and staff incentives, and IT support—that urgently need to be addressed if the guidelines on project selection and evaluation are to be enforced.
- Strengthen the credibility and use of the CFMP through stronger macro-fiscal underpinnings and developing bottom-up multi-year estimates of expenditure, starting with the capital projects in the IIP.
- Merge the macroeconomic and fiscal forecasting units in PMD and MoF to enhance forecasting capacity, with active support of the BM.

- Develop a framework for setting annual fiscal targets for the CFMP; and more urgently develop fiscal rules to mitigate the impact on the budget of large one-off revenue windfalls.
- Improve the credibility of the annual budget process by using cautious but realistic estimates of revenues and donor contributions, improving costing methodologies and better assessing recurrent and capital expenditure linkages.
- Review the existing program classification and costing methodologies and start building capacity for using program budgeting in line ministries over the medium term.

ANNEX 5: MODERNIZATION OF PUBLIC SECTOR ACCOUNTING

A. Current Situation

1. **The SISTAFE Law and regulations specify the contents and coverage of the annual state accounts (OE, CGE).** The law specifies that the accounts will be drawn up on a modified cash basis using double-entry bookkeeping, and that assets will be depreciated. However, other than a reference to generally accepted accounting principles, the law contains no detailed statement of accounting policies or reference to international accounting standards. The CGE document similarly makes no reference to the accounting standards and principles used in preparing it, except for reference to the laws that govern its production, and some explanatory footnotes.

2. **The CGE document contains a great deal of information about the financial activities of the government, covering many hundreds of pages.** The main part of the document focuses on the activities of the budgetary central government and its deconcentrated units (provinces and districts) with annexes covering the municipalities, and certain other autonomous entities of the central government.[19] There is no consolidation of financial information for the general government sector, and only limited information (provided in appendices) on entities in the wider public sector, such as state-owned corporations.[20] The report of the June 2013 FAD mission[21] also noted discrepancies in the consistency of the data presented in the 2011 CGE with the chart of accounts.

3. **The presentation of information in the CGE could be improved.** The 2010 PEFA report[22] noted that there is little or no cross-referencing between the summary statements and supporting information, so that it is very difficult to navigate the document in any sensible way. It seems unlikely therefore that the financial statements will be of much interest to the parliament, donors and the public. There has been no systematic improvement of content and presentation of the CGE since the current format was developed in the mid-1990s. IMF consultants have provided extensive suggestions for improving the format and scope of the CGE, but progress with taking these recommendations forward has been limited.[23]

4. **The government has embarked on an ambitious strategy to introduce accruals-based accounting.** In 2012, it commissioned Ernst and Young (E&Y) to prepare an action plan for implementing this reform. The E&Y report[24] recommended a three-phase reform:

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19 Those that are financed by the central government for two-thirds or more of their revenue.

20 This information includes a list of IGEPE's shareholdings at book value and a table of budgetary transfers to public enterprises.

21 IMF, Fiscal Affairs Department, *Republic of Mozambique: Follow-up of the Public Financial Management Reforms*, June 2013, pages 37–39.

22 *Public Expenditure and Financial Accountability Assessment in Mozambique: Final Assessment Report*, March 2011, paragraph 267

23 IMF, Fiscal Affairs Department, *Public Accounting Project,* June 2012

24 Ernst and Young, October 2012, *Action Plan for Reform of the Budgetary Public Accounts for Accrual Accounting.*

Phase 1 (2012-2013) would comprise the establishment of accounting standards based on those prepared by the International Public Sector Accounting Standards Board (IPSAS Board), and initial training; Phase 2 (2014-2017) the adaptation of IT systems (e-SISTAFE) and pilot implementation; and Phase 3 (2018 onward) the consolidation of IT functionalities, and completion of the roll-out of the standards.

5. **The strategy for implementing accrual accounting will be further considered by the MoF in March 2014, on the basis of a second report by E&Y.** This report is currently in preparation, and has not been seen by the mission. The mission understands, however, that the report will include a proposed full set of 32 IPSAS accrual-based standards. According to the MoF, the next steps will be for (i) the MoF to review the E&Y Report in March 2014; (ii) amendments in the SISTAFE Law and regulations to be drafted and sent to the Council of Ministers (CoM) for approval in May 2014; (iii) necessary changes to be made to the e-SISTAFE functionalities in 2015; and (iv) the roll-out of the new standards to start in 2016.

B. Assessment of Reform Path

6. **The government's current strategy for introducing accrual-based accounting, based on the E&Y report, while making sense as a long-term policy objective, has a number of weaknesses.** In particular, it seems that it:

- Lacks a stepping stone approach to the transition to accruals with clear sequential improvements in reporting outputs;
- May overreach the capacity of the government to implement such a reform, and underestimate its complexity and difficulty; the recent Fiscal Transparency Evaluation highlighted a range of weaknesses in financial reporting;
- Lacks a review of the costs and benefits of alternative options for implementing AA;
- Does not include sufficient analysis of the technical, human resource, change management and financial implications of implementing a reform of such magnitude;
- Does not take into account the need to prepare accounting policies aligned to the practices of Mozambique, and not simply to transplant the IPSAS standards;[25]
- May distract the government's attention from more basic reforms of public accounting that are urgently required; in particular issues of reliability, timeliness, presentation and coverage would seem more important for improving insight to the government financial position and enhancing budget management.

- May absorb capacity of the treasury and accounting functions in the public administrations from higher priority reforms.

7. **Earlier IMF advisory reports stressed the need to consider the move to accrual accounting as a long-term development objective, and to phase the transition process**. Recommendations were made to initiate reforms with improvements to the CGE. Evolving insight in the weaknesses in government accounting capacity especially in line ministries and deconcentrated units provide further arguments to strengthen the need for caution. In addition, experiences in other countries, including advanced countries, in recent years provide evidence that the transition to accrual accounting is both costly and complex. The difficulties that have been faced recently in improving the reliability, presentation and timeliness of the financial statements demonstrate that a preliminary reinforcement of the accounting capacities, and a more prudent approach to the transition of accrual accounting would be advisable.

8. **The mission therefore proposes an approach to implementing AA that is somewhat different from that recommended by the government and E&Y. It does not disagree wi**th the overall aim of the reform, but does with the planned phasing. The E&Y approach could be summarized a "big bang" approach (that is setting end-stage accounting standards at the start of the process, full preparation of all necessary process and IT adjustments, and then full roll-out and implementation over the public sector). The mission would advise a much more gradual approach that would comprise the following two main stages.

9. **Stage 1: Preparation (2014–16).** This phase would focus on improving the reliability and timeliness of current financial information, and consolidating capacities. It could include the following activities:

- Recording expenditures in compliance with SISTAFE requirements.
- Presenting consolidated information on general government expenditure and revenue in the annual financial accounts (CGE) for 2013.
- Aligning the presentation of information in the CGE—relating to public debt, transfers to autonomous institutions and transfers to municipalities—with the chart of accounts, as recommended in the June 2013 FAD report.
- Developing a summary balance sheet, initially including only financial assets and liabilities.
- Preparing a statement of accounting policies to be included in the CGE and any supporting or supplementary volumes.
- Undertaking a review of the CGE's coverage, content and presentation—in cooperation with the *Tribunal Administrativo* (TA) and other stakeholders—and implementing its recommendations.

- Making available a full electronic version of the CGE documents to be published on the MoF's website.

10. **In addition, during this stage, the MoF should develop in parallel a program to enhance the financial reporting of the public corporation sector.** Institutional strengthening of the MoF will be required to enforce this requirement, and ensure adequate overall financial supervision of public corporations (see section x). The outcomes of this program should be reflected in the annexes of the CGE.

11. **The first stage should also include a comprehensive review of the optimal roadmap to accrual accounting.** This review would weigh the costs and benefits of implementing accrual accounting, and assess the relative priority that should be given to it, taking account of other urgent requirements of the PFM reform agenda and the limited capacity of the government. The review—which should include information on the challenges that other countries have faced in implementing accrual accounting, and how these challenges were dealt with—would cover the following main topics:

- The potential benefits of AA in terms of improved, more transparent accounting and financial reporting.
- A strengthened legal framework for public accounting.
- Developing accounting policies relevant to the requirements of Mozambique, and aligned with IPSAS's to the extent possible.
- Changes in business processes, e.g., commitments, payment approvals, verifications and internal controls, to be implemented as part of the reform process.
- Changes required in e-SISTAFE and other IT systems.
- Human resource (HR) requirements including the hiring / retraining of public accountants, and the role that independent bodies such as OCAM[26] might play in this process.
- Change management requirements that include changing the organizational structure of the Public Accounting Directorate in the MoF and the accounting units in line ministries, provinces and districts; and providing information, training and incentives to managers and government accountants to implement the new procedures.
- Financing requirements to implement accrual-based accounting.

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[26] *Ordem dos Contabillistas e Auditores de Moçambique*. This body is a new professional Institute for Accounting and Auditing, covering both the private and public sectors, that will provide *inter alia* advisory services to government (e.g., on new accounting standards and policies) and the training and certification of government accountants.

- Proposed options for sequencing AA implementations, with estimates of their respective costs and benefits.

12. **During this first stage, the mission recommends that no decisions be taken to legislate new accounting standards, or to begin the process of implementation.**

13. **Stage 2: Implementation (2017 onward).** Depending on decisions of the government based on the review described above, this second stage could include a gradual implementation of accrual accounting, based on a phased approach. Possible steps are set out in Box 3.[27] Each would be linked to specific improvements in the government's reporting of its financial accounts and fiscal risks, and to a gradual increase in fiscal transparency. It should be emphasized that the steps described are only illustrative and in practice would be based on the recommendations of the review described above.

Box 3: Illustrative Steps Towards Accrual Accounting

Step 1 (2017-19, say): Stocks reported would include accounts payable to suppliers and other creditors; material financial liabilities and financial assets, including financial debt, cash and other short-term deposits and outstanding loans. Flows reported would include accrued expenses on transactions with suppliers and other creditors. The cash basis would be used for other transactions. Revisions to the legal framework, the definition of accounting policies and procedures, preparation of a modified chart of accounts, and strengthening the internal control and financial reporting framework would also be required. Changes to the CGE would include a simplified and partial balance sheet and operating statement, a description of accounting policies and basic notes and disclosures to the accounts. There would be an extensive focus on capacity building of government accountants and auditors (including the IGF and TA) during this phase.

Step 2 (2020-22): The following additional categories of stocks would be recognized—financial instruments other than debt, including derivatives and loans; financial liabilities, including employee post-employment benefits; and fixed assets , including non-tax receivables. Additional flows reported would include accrued expenses on transactions with suppliers and other creditors; accrued non-tax revenue; together with valuation changes, depreciation and amortization of items recorded in the balance sheet. The cash base would be used for tax revenue. Contingent liabilities would be recorded in the notes to the financial accounts. The CGE would include a partial operating statement and balance sheet, a cash flow statement, a description of accounting policies, and partial notes and disclosures. Staff capabilities would be further reinforced.

Step 3: (2021-25): The remaining categories of assets and liabilities would be recognized in the balance sheet. These include tax receivables, intangible and fixed assets, and inventories. All expenditures and revenues would be recognized at the time of the relevant economic transaction. The government would present a complete set of financial statements—namely, an operating statement, a balance sheet, a cash flow statement, a description of accounting policies, and a full set of notes and disclosures.

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[27] These steps are based on J. Cavanagh, S. Flynn and D. Moretti, "Moving to Accrual Accounting for the Public Sector", *IMF Technical Notes and Manuals*, forthcoming. See, in particular, Table 2.

C. Summary of Recommendations

- The government should reconsider its planned approach to implementing accrual accounting, by carrying out a full review of the practicalities and implications of implementing such a reform, and the cost and benefits of various options.
- The review should include consideration of a more gradual, “stepping stone” approach that would provide concrete benefits to fiscal reporting at each stage, while not placing unrealistic demands and expectations of change on Mozambique’s financial management system. A first phase of codifying existing accounting standards and improving the format of the financial statements as proposed by IMF consultants should be considered as parts of the first phase of the reform process.
- Any move to accrual accounting should be considered as a long-term development, and be carefully sequenced to ensure that the optimal benefits are delivered. Particular attention would need to be given to capacity building and change management, as well as changing business processes and IT systems, and development of transitional, simplified accounting policies where needed).
- In the next two years, attention should be focused on improving the reliability, timeliness, coverage, and quality of the financial information presented in the CGE, as well as improving the reporting of state-owned corporations.

ANNEX 6: ENHANCING FISCAL TRANSPARENCY AND RISK MANAGEMENT

A. Current Situation

1. **In November 2013, at the request of the authorities, the IMF undertook a Fiscal Transparency Evaluation (FTE) of Mozambique.**[28] The assessment concluded that the authorities had made progress both in strengthening fiscal reporting and budgeting practices and in achieving many of the standards set by the Fiscal Transparency Code. The analysis confirmed the results of the International Budget Partnership surveys: between 2010 and 2012 Mozambique's rating under the Open Budget Index has risen from a score of 28 out of 100 to 47 out of 100, and its ranking has increased from 68th out of 94 countries to 55th out of 100 countries. At the same time, the FTA underlines that further improvements in the disclosure and management of fiscal risks could be made over the medium term to meet the challenges that are likely to arise from the expected development of revenue from natural resources.

2. **The FTE includes an action plan to enhance fiscal transparency and risk management over the medium term.** The action plan proposes a roadmap to implement seven recommendations that would materially enhance the information base for fiscal decision-making in Mozambique, and ensure the country keeps pace with international fiscal transparency standards and practices. These recommendations are summarized below.

- **Clarify the coverage of the general government sector and the public sector, and expand the institutional coverage of fiscal reports** through: (1) adopting internationally accepted criteria for determining the classification of institutional units in the general government sector, public corporations, and the private sector; (2) preparing fiscal reports for at least the aggregate general government sector; and (3) clarifying and strengthening the reporting requirements for the autonomous institutions and public corporations

- **Expand financial statements coverage and clarify the accounting standards** through: (1) valuing and recognizing categories of assets and liabilities that are important in terms of fiscal transparency and risk management; (2) valuing and disclosing obligations from funded pension schemes, and providing off-balance sheet information on the pay-as you-go scheme managed by the government and the social security (INSS); (3) valuing, recording and analyzing accounting data on tax expenditures and tax liabilities; and (4) clarifying the existing accounting standards and policies, and improving the presentation of the financial statements.

[28] IMF, Fiscal Affairs Department, *Republic of Mozambique: Fiscal Transparency Assessment—Provisional Findings and Action Plan*, November 2013 (draft).

- **Improve the accuracy and transparency of official fiscal forecasts** through: (1) strengthening forecasting practices to minimize errors and disclosing the assumptions that underlie the projections; and (2) disclose and explain material changes to the government's previous fiscal forecasts.
- **Improve the analysis of fiscal risks** through: (1) analyzing the sensitivity of the government's fiscal forecast to different macroeconomic assumptions; (2) producing alternative macro-fiscal scenarios that illustrate the robustness of the government's fiscal strategy to a range of potential macroeconomic shocks, and underscore the importance of contingency planning in fiscal policymaking; and (3) publishing a comprehensive statement of fiscal risks and strategy for managing quantifiable risks.
- **Develop the control and disclosure of fiscal risks** through: (1) developing a policy to manage government guarantees which discloses information on all such guarantees, their beneficiaries, and the resulting financial risks; (2) publishing an annual report on the overall financial performance of public enterprises, publicly owned corporations, and equity held by the state in private enterprises; (3) disclosing fiscal risks related to the INSS; and (4) actively managing risks arising from large and multi-annual contracts, including public-private partnerships and contracts for the exploitation of resources.
- **Improve transparency and risk management in the hydrocarbon and natural resource sector** through: (1) publishing information about the value and volume of natural resources and expected revenues; (2) incorporating assumptions about the hydrocarbon sector in the government's macroeconomic projections; and (3) managing risks through the use of an appropriate fiscal regime and rules.
- **Enhance the fiscal and financial oversight of public enterprises** through: (1) requiring public corporations to disclose and quantify in their financial statements the cost of any provision of goods or services at below market prices, public service undertakings, or other quasi-fiscal activities; and (2) disclosing all direct and indirect support, including transfers, between the government and public corporations on an annual basis.

B. Analysis

3. **The implementation of the action plan included in the FTA needs to be incorporated into the PFM reform agenda**. The previous sections of the present report include recommendations to redirect the overall PFM reform agenda and also support the strengthening of fiscal transparency and risk management. A number of additional measures is needed to ensure full complementary of the fiscal transparency action plan with the overall reform agenda.

4. **The introduction of a Fiscal Risk Statement (FRS) would be a key action to strengthen the reporting, coordination and management of fiscal risks**. To manage fiscal risks effectively, decision makers must have a clear understanding of the risks implied by

their decisions and actions. As a consequence, this information must be accessible, timely and reliable. In this regard, the proposed FRS should be produced as an integral part of the annual budget cycle and submitting it to the CoM in summary form in the CFMB and in a more detailed way alongside the annual budget. The overall report could contain information on:

(i) alternative macroeconomic scenarios and their impact on fiscal outcomes;

(ii) the value and expected increase of contingent liabilities such as guarantees, PPPs and concession arrangements;

(iii) the value and risk to certain categories of assets and liabilities,

(iv) the exposure to non-central government, public corporation and financial sector risks.

(v) long-term policy risk of health care, social insurance and demographics.

5. **A preliminary risk assessment could be presented to senior decision-makers early in the annual budget cycle, as part of the CFMB, to inform ministers on the risks that could affect budget outcomes and to take mitigating measures in the preparation of the budget**. The summary assessment would be the basis to prepare the full FRS that would be published as a part of the budget documentation submitted to the Parliament.

6. **Public disclosure of comprehensive information on fiscal risks through the FRS should substantially increase the transparency of the government financial position.** It should also promote earlier and smoother policy responses (delayed responses often need to be larger and more abrupt); strengthen accountability for fiscal risk; and improve the quality of decisions on whether the government should accept risks over which it has discretion in the first place. Even when contingent obligations, for government guarantees on public sector borrowing for example, imply low risks from a macroeconomic standpoint—because they are small or uncorrelated with each other—disclosure leads to more careful assessment of their cost-effectiveness. Consistent with these benefits, cross-country evidence suggests that fiscal transparency is associated with better sovereign bond ratings and greater access to international capital markets. Moreover, fiscal transparency has been found to foster foreign direct investment. From an international perspective, fiscal risk reporting requirements are increasingly common (see. Box 4).

Box 4: Examples of Fiscal Risk Reporting Practices

Beyond accounting standards, some countries have set risk reporting requirements in their fiscal responsibility laws or legislation covering PFM. These laws often call for disclosure of contingent liabilities (e.g., Canada, Chile, Colombia, the Czech Republic, France, and Peru). In some countries, they entail comprehensive reporting of all risks that could affect the fiscal outlook.

Examples of the fiscal risks reported by some countries include sensitivity to economic conditions, and long-term risks associated with demographic changes (e.g., Australia, Brazil, New Zealand, European Union, and the UK). Long-term risks can also be addressed in separate reports on long-term fiscal projections. Some countries present information on general economic risks in the context of the macroeconomic outlook, with details of specific fiscal risks in other parts of the budget documents, as is the practice for example in the UK and the US.

7. **Preparing an FRS would require a strengthening of existing institutional arrangements and capacity within the MoF.** One possible approach would be to establish:

- a senior level Fiscal Risk Management Committee to provide guidance and oversight of the FRS. The Committee would need to be chaired at a senior level (e.g., the Vice Minister) to provide it with the necessary authority.
- a technical unit within the Budget Directorate of the MoF, perhaps integrated into the existing fiscal unit, to take responsibility for developing the methodology of fiscal risk analysis and coordinating the preparation of the FRS, drawing on information provided by other directorates of the MoF.

8. **In the medium term, an FRS for Mozambique could include the elements summarized in Box 5.** The listing below is quite comprehensive; it would be expected to build up the coverage of the FRS gradually.

C. Recommendations

- With the support of the IMF and other development partners, define the institutional arrangements and develop capacities to strengthen fiscal risk management; design a sequenced roadmap to disclose fiscal risks and their mitigation strategy;
- Include in the MTEF a “summarized risks assessment” based on available information as of the preparation of FY 2015 budget;
- Develop a full FRS for the FY 2016 budget.

Box 5. A Fiscal Risks Statement for Mozambique

General statement of the government on its objectives in publishing information on fiscal risks and its risk management strategy

Framework for Risks Management
Legal framework
Risks management objectives
Scope of risks management: institutional coverage and categories of risks
Institutional arrangements, roles and responsibilities

Macroeconomic Risks and Budget Sensitivity
Discussion of the macroeconomic forecasting record in recent years, comparing the assumptions used in budget forecasts against actual outcomes.
Sensitivity of aggregate revenues and expenditures to variations in the key economic assumptions on which the budget is based with explanation of underlying mechanisms.
Analysis of the variance of budgets versus outturns in recent years.

Hydrocarbon and natural resource
Estimated volume and value of natural resource, as well as government's interest and ongoing exploitation;
Impact of price volatility on revenues. Fiscal rules implemented to manage revenue from natural resources.

Public Debt
Sensitivity of public debt levels and debt servicing costs to variations in assumptions, e.g., on interest rates. A summary of the government's debt management strategy and its impact on the government's risk exposure.

Government lending programs
Policy and institutional framework for government lending, including subsidized lending: projected inflows, outflows, and balances; disposition of loan repayments, monitoring arrangements.

Civil service pension liabilities
Level of the government's liabilities, and its approach to managing costs and risks in the scheme.

Fiscal incentives and tax expenditures
Description of main incentive schemes with estimates of foregone revenues; evidence of cost effectiveness.

Contingent Liabilities
Guarantees: Government's gross exposure to guarantees . Rationale and criteria for the provision of guarantees, recent experience of non-repayment of guaranteed loans; description of any guarantees fund.

Public Private Partnerships: Summary of the PPP program and its relationship to the public investment program; policy framework and rationale for PPPs.
Cumulative overall multiyear obligations from government's current PPP program.
Discussion of additional announced PPP contracts under active consideration.
Gross exposure from guarantees and other contingent liabilities in PPP contracts.

Other contingent liabilities: This might include a short discussion of fiscal risks from natural disasters, and legal action against the federal government, and how these are managed.

State-Owned Enterprises
Policy framework for SOEs (pricing policy, dividend policy, noncommercial obligations).
Financial performance and position of the SOE sector and the largest SOEs.
Financial performance and position of state-owned financial institutions.

Local governments
Legal framework for intergovernmental fiscal relations, and summary of recent local government financial performance and financial position.

INSS
Legal framework for fiscal relations with the INSS, and summary of recent INSS financial performance and financial position.

Financial Sector
Deposit insurance scheme, prudential regulation.

ANNEX 7: ENHANCING CAPACITY AND SUSTAINABILITY

Present Situation

1. **PFM expertise is distributed unequally in the public administration.** While senior staff in the MoF and MPD are well trained and aware of advanced PFM concepts and the overall reform strategy, this is less the case with more junior staff. The knowledge of PFM processes in line ministries, provinces and districts is even more limited, with the exception perhaps of some of the larger ministries.

2. **Low capacity undermines the use of e-SISTAFE and makes the PFM system susceptible to personnel changes.** According to counterparts, deconcentrated financial administration and planning units have difficulties with most aspects of e-SISTAFE functionality. Even basic issues like transaction recording and appropriate coding of expenditure information are seen as problematic. Lack of capacity has also impeded the operationalization of the commitment control feature of e-SISTAFE. Deconcentrated units reportedly mostly see e-SISTAFE as a payment window for budget expenditure. The use of e-SISTAFE for policy planning and analysis is still limited, even within the MoF and MPD. Moreover, some line ministries rely on their own systems for planning and policy purposes, often at the instigation of donors. Finally, staffing changes can severely impact low capacity financial management units, requiring in some cases substantial staff retraining complements. The macroeconomic forecasting unit in the MPD is an example of a unit that has lost most of its technical capacity as a result of personnel changes.

3. **Existing training efforts are largely focused on the use of e-SISTAFE, mostly provided through CEDSIF, and the courses are not always attended by managers.** The MoF does not have a standard training curriculum for new staff, let alone for ministries and deconcentrated units. CEDSIF does provide a substantial amount of training, but it is very much centered on the roll-out and use of e-SISTAFE. A complaint of CEDSIF is that senior line ministry staff does not always feel obliged to participate in training events. The idea of establishing a dedicated training school, a Public Finance Academy, to provide a broader curriculum, providing courses in a wide range of finance, accountancy, budget and IT topics, has been discussed within the Ministry but no decision has been taken as yet.

4. **Institutional capacity is weak in line ministries and deconcentrated budget users, and in need of development to meet existing and new PFM challenges**. The existing focus on e-SISTAFE gives too little priority to other key aspects of PFM reform such as staff training, the development of new business processes, the upgrading and maintenance of IT equipment, and change management support. New institutional arrangements have to be established to build the MoF's capability in emerging and evolving areas such as public investment management, the MTFF, program budgeting, and fiscal transparency and risk management.

A. Capacity Building

Analysis

5. A number of countries in Africa but also in other regions have seen the need to develop (and maintain) basic and advanced training curriculums for finance and planning staff in the public administration. In some of these countries, Public Finance Schools/Institutes have been set up for this purpose. The success of such endeavors has varied from country to country and is mostly linked to the commitment of senior management in promoting the curriculum. Amongst developing and emerging market economies Burkina Faso, Brazil and Cambodia are countries with strong Public Finance Schools (see Box 6 for the Burkina Faso example). Amongst the advanced countries France, the Netherlands and Australia provide good models. An important factor has also been to keep the training institute part of the finance ministry and to ensure that trainers are enlisted from senior management (with possible consultant support). Institutes linked to universities and/or more general civil service training tend to be less successful as the specifics of finance and planning processes are generally not well known in academia or the wider public sector. Also, training curriculums provided only by international consultants tend to lack relevance for existing government procedures, systems and legal frameworks.

Box 6. Placing a Premium on Training and Capacity Building: the Burkina Faso Case

"Two underlying factors are also relevant in explaining the success of Burkina Faso's reforms. Firstly, the technical and managerial capacity of the public servants involved in PFM functions is substantially higher than the average for Sub-Saharan Africa. This is in part because the PFM reform program itself has placed a premium on training and capacity building, but probably more significantly because the ENAREF (Ecole Nationale des Régies Financières) has been in place for over 20 years, producing a regular outflow of high quality graduates in public accounting and financial management, and because the public service as a whole is disciplined and well organized."

Source: *"Evaluation of Public Financial Management Reform in Burkina Faso 2001–2010*", Andrew Lawson, Mailan Chiche, Idrissa Ouedraogo, June 2012.

6. **To stimulate capacity building some countries have defined career streams for accounting, finance and planning staff.** Just as in specialist areas such as debt management, IT and auditing, defining career streams in financial management areas can allow both a somewhat higher remuneration and enable the government to achieve and maintain high standards of expertise. The creation of cadres of finance specialists is quite widespread and could be considered by the Mozambiquan authorities. A variant of this idea is for institutional units within line ministries and deconcentrated units to be required to achieve certain technical and capacity standards tested by the MoF. After "certification", the devolved units could then be given greater autonomy in budget management.

7. **Ministries of Finance often underestimate the training effort needed to successfully implement PFM reforms.** Whilst reforms can be developed at the center of government, they need implementation with active participation of the whole government administration. This multiplies training needs as system development makes way for system operation. Training also cannot be one-off, as staff usually change jobs quite rapidly in government, especially in fast growing economies, and technologies and business processes can also change rapidly in the process of reform. Thus there is a need for a strong, continuous training effort to successfully operate modernized PFM systems.

Summary of Recommendations

- The authorities should proceed to develop a Public Finance Academy aimed at training both MoF and MPD staff, as well finance and planning staff of line ministries and deconcentrated units. Development of the concept should be feasible within a six month period. Implementation, which would certainly require donor support, could be done over a 2–4 year time horizon.
- Training efforts should be enhanced substantially and be seen as a recurring requirement, and should be focused both on the basic entrance level requirements of junior staff and more advanced training of mid-level staff members.
- To stimulate capacity building and ensure training obligations are met a combination of career stream rewards and accreditation requirements could be set as part of definition of a Finance and Planning career stream.

B. Institutional Strengthening

Analysis

8. **Institutional structures have adapted to some extent to PFM reforms, but institutional strengthening overall seems to lag adopted reforms.** Most notable in recent years has been the strengthening of the *Tribunal Administrativo* (TA, the external audit institution) and the expansion of sectoral inspectorates which are gradually evolving to accommodate internal audit requirements. However, as discussed in Annex 1 above, further strengthening of system integrity is still a priority. Within the MoF, CEDSIF has played a major role in managing the overall reform process but its focus has been to a large degree on IT development. Capacity by line ministries and deconcentrated units to use e-SISTAFE fully is seen as insufficient. This reflects a lack of staff training, but also weaknesses of systems, equipment and maintenance.

9. **As discussed elsewhere in this report, new challenges are arising with regard to reforms in areas such as the IIP, the MTFF, program budgeting, and fiscal transparency and risk management**. The institutional framework for these tasks needs further development. While the MoF and MPD are working together on IIP and MTEF, the cooperation between them on these functions (together with macroeconomic and fiscal forecasting) could, in the view of the mission, be further enhanced. At the provincial and

district levels the two functions have not been separated. Implementation of the reforms set out in the recent Fiscal Transparency Assessment will also require a number of institutional changes.

10. **The following institutional needs were identified by the mission**:

- Setting up a PFM Reform Coordination Unit to coordinate the overall reform process and support senior managers in MoF and MPD would balance the strong role of CEDSIF in promoting IT solutions to reform. The Unit would also have an important monitoring and communication role vis-a-vis the line ministries and others system users.
- Strengthening capacity and position of sectoral and decentralized DAFs/Planning Units; this is essential for better recording of transaction information, and more fully using e-SISTAFE functionality. Strengthening the legal and organizational autonomy of the DAF director in relation to the management of the line ministry or province in which he/she works has been used in many countries to support system integrity
- Linkage of IC agents to IGF/MoF/Internal Audit; as discussed in Annex 3 above where various options were presented; such linkages to other organizations would also benefit system integrity.
- Strengthening the policy focus of the MoF's Budget Directorate and the DAFs; the policy function in budget preparation and management is expected to rise as data collection through e-SISTAFE improves. Program budgeting in due course will add to the scope for expenditure analysis.
- Setting up a dedicated unit within Treasury for cash and debt management would enhance capabilities in these areas. Cash and debt management can be separate units but would need to coordinate activities closely, including issuance and communications with the market and central bank.
- Immediate integration of the macro unit in the MPD and the fiscal unit in the Budget Directorate, with enhanced support from the BM; this would strengthen the modeling work for macro-fiscal projections, and lay a stronger basis for preparing the MTFF and the annual budget.
- A new risk monitoring and management unit within the MoF will be essential to carry out an enhanced risk monitoring and reporting function as recommended in the FTA.
- Enhancing SOE oversight and reporting would require substantial strengthening of the IGEPE to allow improved supervision, and reporting enforcement. Reporting by IGEPE and Treasury on the overall public corporation sector (as defined internationally) will also require substantial capacity building.
- The supervision and monitoring of public-private partnerships, an area that is newly developing in Mozambique and a source of substantial fiscal risk, will similarly require upgrading the capacity of the MoF.

- As noted in Annex 4 above, the cooperation between the MoF and MPD could be further strengthened. Effective development of new instruments like the IIP and MTEF require close coordination between MoF and MPD. Program budgeting over the medium-term will require de facto an integration of recurrent and capital budget preparation, and would be facilitated if the planning and budgeting functions were carried out by a single ministry.

C. Recommendation

- The MoF should develop and implement a program of institutional strengthening based on the detailed proposals set out above.