



REPUBLIC OF MOZAMBIQUE

TECHNICAL ASSISTANCE REPORT — PUBLIC FINANCIAL MANAGEMENT

January 2023

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I N T E R N A T I O N A L M O N E T A R Y F U N D

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Republic of Mozambique

Public Financial Management

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Technical Assistance Aide-Memoire

December 2016

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ABBREVIATIONS AND ACRONYMS

AFS	AFRITAC South
AT	<i>Autoridade Tributária</i> (Revenue Authority)
BM	Bank of Mozambique
CEDSIF	Finance Information System Development Center
CFMP	<i>Cenário Fiscal de Médio Prazo</i> (Medium-Term Fiscal framework (MTFF))
CGE	Government General Account
CUT	Treasury Single Account
DEEF	Directorate for Economic and Financial Studies
DNMA	National Directorate for Monitoring and Evaluation
DNPO	National Directorate for Planning and Budget
DNT	National Treasury Directorate
e-CAF	Civil Servants Database
e-CPAE	Temporary Civil Servants Database
e-Folha	Salary payment system
FAD	Fiscal Affairs Department
FRS	Fiscal Risk Statement
FTAP	Fiscal Transparency Action Plan
FTE	Fiscal Transparency Evaluation
GGR	Cabinet for Fiscal Risks Management
IGEPE	State Shares Management Agency
IGF	General Inspectorate of Finance
IIP	Integrated Investment Program
IMF	International Monetary Fund
INE	National Statistics Institute
INSS	National Institute of Social Security
IT	Information Technology
MAEFP	Ministry of State Administration and the Public Function
MEF	Ministry of Economy and Finance
MPE	e-Assets Module
PFM	Public Financial Management
PIM	Public Investment Management
PIMA	Public Investment Management Assessment
PPP	Public-Private Partnerships
SOE	State-Owned Enterprise
SISTAFE	Public Sector Financial Management System
TA	<i>Tribunal Administrativo</i> (Administrative Court)
UGB	Beneficiary Management Units
UGE	Executor Management Units
VAT	Value Added Tax

PREFACE

In response to a request from the Minister of Economy and Finance, Mr. Adriano Maleiane, a technical assistance (TA) mission from the Fiscal Affairs Department (FAD) visited Maputo, Mozambique during the period December 1-14, 2016 to carry out a review of the implementation of the government's public financial management (PFM) reform strategy.

The mission was led by Mr. Xavier Rame and comprised Messrs. Richard Allen, Gregoire Tirot and Soren Langhoff, and Ms. Vania Tembe, FAD experts. It was coordinated with an analysis of budget execution procedures undertaken by Mr. Jean-Michel Champomier, Afritac South (AFS) expert. The mission benefitted from the excellent support and advice of Ms. Esther Palacio, TA coordinator at the IMF office in Mozambique.

The mission would like to express its gratitude for the close cooperation and fruitful collaboration provided by the authorities, especially Mr. Domingos Lambo, Permanent Secretary, who guided the work of the mission. The mission would also like to thank all the participants to the various meetings and workshops for their active and constructive participation.

This mission is part of the “Strengthening Fiscal Institutions in Mozambique Project” that is funded by the Government of Denmark and implemented by the IMF.

EXECUTIVE SUMMARY

Over the last 15 years, Mozambique has made good progress with its public financial management (PFM) reform agenda but is facing challenges related to fiscal transparency and risk management. Treasury and budget management processes have been substantially modernized, and initial steps have been taken to introduce more advanced reforms such as the medium-term fiscal framework (CFMP) and program budgeting. The published FTE report shows that the country has improved the availability of fiscal information, but highlights the scope for improvements in budget documentation and fiscal reports, including information on fiscal risks. Following the revelation in April 2016 of previously undisclosed debt (\$1.4 billion or 10.7 percent of the 2015 GDP), the country is facing significant fiscal risks and pressure to improve fiscal transparency.

The previous PFM assessment mission in November 2015 recommended reprioritizing the government's PFM reform strategy and translating the government's policy agenda into concrete improvements in financial systems and management. The mission found that progress in modernizing PFM systems had been mixed. The merging of finance and planning functions within the MEF had yet to be implemented. Limited progress had been made in introducing a medium-term framework for the budget. While the coverage of the Treasury Single Account (TSA) had increased, improvements in cash flow forecasting were more limited. The control over each stage of the budget execution process (commitment, verification, and payment) did not appear to be operating as designed. The mission supported the finalization of the country's first fiscal risk statement (FRS). In this context, the current mission focused on four key topics: (i) supporting the planning and governance of the PFM reform strategy, (ii) strengthening the budget execution process, (iii) assessing the management of the civil, and (iv) enhancing fiscal risk management and transparency.

Developing an Effective PFM Reform Strategy

The MEF has made significant progress in developing a medium-term PFM reform strategy and action plan. A comprehensive and well prepared draft *Strategic Plan for Public Finance*, covering the period 2016-2019 should be finalized before the end of 2016. It should take into account the comments provided by the development partners and the current report.

The *Strategic Plan* needs to be operationalized. The *Plan* should be updated on a regular basis to reflect changes of fiscal parameters and ensure the consistency with the government's economic and financial policies. Its implementation will require an operational plan, prepared by the directorates and units, for delivering the strategic objectives, with a particular focus on actions to be taken in the next 12-18 months. While a revision of the PFM legal framework would support the reforms set out in the *Strategic Plan*, it should not take precedence over other more urgent reforms and could be delayed until 2018.

The governance arrangements for managing and coordinating PFM reforms have improved but could be strengthened further. The mission recommends establishing a Special Committee, chaired by the Minister, Vice Minister, or Permanent Secretary to supervise the finalization and implementation of the Strategic Plan and provide leadership on PFM reform. The Committee should hold regular meetings with the development partners to ensure shared ownership of the *Plan* and secure adequate funding.

Strengthening the Budget Execution Process

Systemic constraints continue to preclude timely recording of all stages of budget execution. The overall budget execution system remains focused on ensuring a tight financial control, *de facto* leading to the subordination of the commitments recording to the cash release by Treasury. In this context, the real time monitoring of the budget execution is limited and there is no comprehensive and consolidated information on expenditure arrears.

Short-term improvement could be achieved by maximizing the use of existing data. Sectors register their contracts in database out of e-SISTAFE but those data are not consistently used. These data should be consolidated at the central level to monitor the use of budget allocation and assess the remaining financial room. In addition, the action plan on arrears proposed by the April 2016 mission could be implemented in the short-term to improve the evaluation of the stock of payment arrears.

Managing the Civil Service Wage Bill

Although wage bill forecasting is rudimentary, it has been effective in the recent period. The multiyear planning and budgeting methodology should be systematized and strengthened to improve predictability and planning of budget outlays. The budget documentation provides only aggregated information regarding the assumptions underlying the wage bill forecast. Disclosing information concerning the distribution of the staff headcount and the factors explaining the wage bill dynamic would substantially improve fiscal transparency and quality of forecast.

The design of the wage bill legal framework, procedures, and controls seems adequate. The Proof of Life operation updated the register of public employees in 2015, including their biometric information, and will be carried out on an ongoing basis from 2017. The high coverage of database and applications ensures that a substantial part of the civil service wage bill management benefit from embedded controls. The process for salary payment is well conceived and includes a number of controls at both the sector and ministry of finance levels. The budget documentation regulates the wage bill operations with a financial impact.

Nevertheless, recent slippages of the wage bill are concerning. The budget execution forecasts for 2016 and 2017 show a systematic budget overruns in both years. Without detailed data, the mission was not able to assess whether these expected overruns are due to deliberate under budgeting, deactivation or overriding of the controls embedded in the systems and legal procedures, buildup of arrears from previous years recorded outside the system but being paid in 2016, changes in the composition of the payroll, decrease in the expected number of retiring

staff, significant increase of new staff hiring, or a combination of these factors. FAD stands ready to assist the authorities in undertaking a detailed analysis of wage bill data to understand the causes of these fiscal slippages and identify possible mitigation measures.

Enhancing Fiscal Risk Management and Fiscal Transparency

Sound institutional arrangements are needed to support an effective and integrated approach to fiscal risk management. The creation of the Cabinet for Fiscal Risks Management (GGR) is a first step to set up and staff a central risk management oversight unit. The GGR could support the establishment of the government's fiscal risk management policy and the related accountability framework. Strengthening central controls over the management of fiscal risks should be a priority and could be achieved by submitting to the prior approval of the Minister of finance and Economy any act with a financial impact.

While the development of an active risk management function within the ministry should be a priority, on the short term the GGR focus on the effective assessment and management of fiscal risks. With due regards to its staffing level and the need to build its capacities, the GGR should focus on fiscal risk management (fiscal risk strategy, Fiscal Risk Statement, overall exposure to risk, mitigation strategies...) and the compliance with key legal requirements and international commitments. The development of internal audit within the MEF should not be given priority in the short term and could be allocated to the General Inspectorate of Finance.

While the publication of the FRS in 2015 was a major step to improve fiscal transparency, the objective should be to fully integrate the statement with the management and mitigation of fiscal risks. Based on the fiscal risks assessment, the government should identify relevant mitigation instruments. The timeline of the preparation of the FRS should be fully aligned with the budget calendar. The FRS annexed to the *Cenário Fiscal de Médio Prazo* could provide a medium-term perspective, while the one annexed to the budget proposal could focus on an assessment of risks during the upcoming budget year.

As most of the FTE's findings remain fully valid, a decision by the government to update and approve the FTAP would send a clear signal to stakeholders about the country's commitment to improve fiscal transparency. The update of the FTAP could be developed in collaboration with the development partners, who could support its implementation. FAD could provide operational support to finalize this update.

I. IMPROVED PLANNING AND IMPLEMENTATION OF PFM REFORMS

A. A Strategic Planning Framework for Public Finance

Current Situation

1. The MEF has made significant progress in developing a medium-term PFM reform strategy and action plan. Recent FAD missions recommended that such a strategy be put in place¹. During 2016, the MEF has prepared a draft *Strategic Plan for Public Finance*, covering the period 2016-2019. The *Strategic Plan* is aligned with the government's *Vision of Public Finances, 2011-2025* and its medium-term development plan, *Programa Quinquenal do Governo (PQG) 2015-2019*. Preparation of the *Strategic Plan* has been coordinated by CEDSIF with support from the directorates and units of the MEF. Drafts of the *Plan* have been discussed with the development partners, who submitted written and oral comments. The mission also provided comments on broadening the scope of the *Plan* to include a public sector-wide perspective, the selection of key performance targets and indicators, and the arrangements for monitoring the *Plan's* implementation. The MEF expects to finalize preparation of the *Plan* before the end of 2016, and will then submit it to the Council of Ministers for approval.

2. The *Strategic Plan* provides a broad coverage of public finance issues, broken down into seven objectives, and a set of sub-objectives or activities. Table 1 shows both the MEF's existing proposal and the revisions proposed by FAD. The focus of the *Plan* is primarily on public finance functions, but also includes other aspects of the MEF's mandate, notably the promotion of the business sector and private investment. The scope of the *Plan* is therefore wider than a typical PFM reform strategy. CEDSIF informed the mission that the *Plan* (i) is consistent with CEDSIF's own *Strategy for 2015-2019*, which focuses on the IT aspects of PFM reform; (ii) does not include provisions for training or capacity building, which are being prepared separately; and (iii) does not include specific provisions for rolling out the plan to line ministries, provinces or local governments. CEDSIF also noted that they had prepared a broad assessment of the cost of implementing the *Plan*, but these data were not supplied to the mission.

¹ IMF, Fiscal Affairs Department, X. Rame, R. Allen, I. Aziz, J-L Helis, E. Palacio, V. Salins, R. Sousa, C. Renteria, and M. Wilkinson, *Republic of Mozambique: Strengthening Fiscal Institutions in Mozambique*, November 2015; and H. van Eden, R. Allen, M. Azevedo, E. Palacio, X. Rame, and M. Williams, *Republic of Mozambique: Refocusing the Public Financial Management Strategy*, March 2014.

Table 1. Strategic Plan for Public Finances (2016-2019): Key Objectives

MEF's Current Proposal	Mission's Proposal
<ul style="list-style-type: none"> • Objective A. Promote savings and private investment <p>Investment promotion</p> <p>Development of national entrepreneurship</p> <ul style="list-style-type: none"> • Objective B. Increase the collection of the State's revenues <p>Collection mechanisms</p> <p>Revenue audit</p> <ul style="list-style-type: none"> • Objective C. Ensure an effective allocation of resources <p>Macro-fiscal projections</p> <p>Public investment selection and monitoring</p> <ul style="list-style-type: none"> • Objective D. Improve the efficiency of budget execution <p>Public procurement</p> <p>Cash management</p> <p>Comprehensiveness of Treasury Single Account</p> <p>Timeliness and reliability of financial reports</p> <p>Credibility of budget planning</p> <p>Reform of pensions and social security</p> <ul style="list-style-type: none"> • Objective E. Improve the management of public assets <p>Management of the State corporate sector</p> <p>Public assets register</p> <ul style="list-style-type: none"> • Objective F. Ensure the sustainability of the public debt <p>Public debt restructuring</p> <p>Protection against fiscal risks</p> <ul style="list-style-type: none"> • Objective G. Ensure appropriate use of public resources <p>Efficient audit and control</p> <p>Portal on public finances</p> <p>Disseminate public finance information</p>	<ul style="list-style-type: none"> • Objective A. Promote savings and private investment <p>Investment promotion</p> <p>Development of national entrepreneurship</p> <ul style="list-style-type: none"> • Objective B. Increase the collection of the State's revenues <p>Collection mechanisms</p> <p>Revenue audit</p> <ul style="list-style-type: none"> • Objective C. Ensure an effective allocation of resources <p>Macro-fiscal projections</p> <p>Public investment selection and monitoring</p> <ul style="list-style-type: none"> • Objective D. Improve the efficiency of budget execution <p>Public procurement</p> <p>Cash management</p> <p>Comprehensiveness of Treasury Single Account</p> <p>Timeliness and reliability of financial reports</p> <p>Credibility of budget planning</p> <ul style="list-style-type: none"> • Objective E. Improve the management of public assets <p>Public assets register</p> <p>Management of natural resources assets</p> <ul style="list-style-type: none"> • Objective F. Strengthen the management and oversight of the public sector <p>Public debt restructuring</p> <p>Management and oversight of the public sector</p> <p>Mitigation measures against fiscal risks</p> <p>Reform of pensions and social security</p> <ul style="list-style-type: none"> • Objective G. Improve transparency and governance <p>Efficient audit and control</p> <p>Access to public finance information</p>
<p>Source. CEDSIF</p>	<p>Source. IMF staff</p>

Assessment

3. The draft *Strategic Plan* is a comprehensive document and has been well prepared, but some outstanding issues need to be addressed. In particular, the ongoing discussions between the authorities and the IMF on a possible program highlight the importance of macro-fiscal issues that could be given greater prominence in the *Plan*. The following issues should be considered by CEDSIF before the *Plan* is finalized:

- The broad structure of the *Plan*, which is broken down into objectives and activities, is appropriate. Greater emphasis should be given, however, to assessing and reporting the fiscal operations of public sector entities outside the central government, in particular public corporations, the social security fund (INSS), and the banking sector. There is also a need to make a clearer distinction in the *Plan* between strategic objectives (e.g., achieving value for money in the ownership and management of public assets) and operational objectives (e.g., improving the performance of the procurement system in conducting competitive international tenders, and in recording public assets). Some specific comments have been made by the IMF and development partners in this regard which are being considered by CEDSIF.
- The two tables annexed to the *Plan* also need to be reconsidered. These tables include a mixture of actions or activities that would be undertaken during the five-year period of the *Plan*, and the related performance targets or indicators. The second table is a results matrix, but its purpose is not clearly distinguished from the first table. The two tables could be merged into a single table, which would take the form of a strategic action plan. Under each strategic objective, the main actions (described at a high level) would be set out, together with a few Key Performance Indicators (KPIs) that could be monitored during the *Plan's* implementation. Annex 1 proposes a template for this revised presentation, for CEDSIF's consideration. To provide some historical context, the *Strategic Plan* could also include a table showing the trend in selected KPIs over, say, the past five years.
- CEDSIF discussed with the mission a proposal supported by some development partners to include selected PEFA indicators as a means of monitoring progress in the implementation of the strategy. In the mission's view, however, the indicators included in the *Plan* should be clearly distinguished from the PEFA framework. The *Plan* is strategic in nature, and thus includes high-level targets on public finance for the government to achieve over the next five years. The PEFA framework, on the other hand, provides a technical assessment of PFM processes and systems. The government should be encouraged to update every few years the PEFA assessments it carried out in 2010 and 2015, as a mean of identifying areas of the PFM system that continue to require strengthening, and on which the authorities may want to request support from the

development partners². PEFA assessments, and the related set of indicators, should therefore be viewed as complementary to the *Plan*, and a mechanism to help achieve better delivery of the *Plan's* key strategic objectives. PEFA indicators could be included in the detailed operational plans that the MEF should prepare in order to deliver the MEF's strategic objectives (see below).

4. In order to implement the *Strategic Plan*, there are several important policy issues that the authorities should consider. These issues are set out below.

- **Updates.** The *Plan* covers the period to 2019 but the public finances are likely to experience substantial changes during this period, and there is a strong case for updating the *Plan*, and its strategic targets, on a regular basis, perhaps annually. The first occasion to update the *Plan* would arise should the authorities agree a program with the IMF in the future. Such a program would include targets and structural benchmarks that could be included in an updated version of the *Strategic Plan*.
- **Operationalizing the *Strategic Plan*.** As explained, the *Plan* is focused on strategic objectives in the area of public finance. Little attention, except in very general terms, has been given to how the *Plan* will be put into effect, and which entities will be responsible for taking it forward at an operational level. CEDSIF explained that the *Plan*, once adopted, would feed into the process of formulating the government's annual *Economic and Social Plan* (PES), which is prepared in parallel to the annual budget. But this routine activity is unlikely to be sufficient. The *Strategic Plan* should include a section that describes the next steps that will need to be implemented in order to operationalize the strategy; the allocation of responsibilities to the managers of the directorates and units of the MEF (DNPO, DNT, DEEF, GGR, etc.); and the specific tasks that need to be undertaken. Each of these directorates should be asked to prepare by, say, April 2017, an operational plan for delivering the strategic objectives, with a particular focus on actions to be taken in the next 12-18 months, and the resources required to deliver these outputs. Table 2 shows some of the key elements to include in such a plan. Directorates will need to discuss the development of their plans with other directorates who may be involved, and with CEDSIF, which should act as an advisor on the coordination of the various initiatives and activities. CEDSIF should ensure that its *Strategy for 2015-2019* is consistent with the new *Strategic Plan* on aspects relating to IT systems, and is updated in parallel with the *Plan*.

² Similarly, there are other PFM diagnostic instruments such as the Fund's Tax Administration Diagnostic Assessment Tool (TADAT) and the World Bank's Debt Management Performance Assessment (DeMPA) tool that may be useful in identifying PFM processes that require improvement, and on which TA can be requested if needed.

Table 2. Illustrative Operational Plan for a Directorate (2016-2017)

Key Elements of the Plan	Illustrative Example
Responsible official	Director of XYZ Directorate
Project manager	Senior Economist, XYZ Directorate
Coordination required	Yes, with CEDSIF, DNPO, DNT
Relevant Objective of the Strategic Plan	Objective D, Sub-Objective 2
Action to be delivered by XYZ Directorate	Implement a new SOE database
Activities to be delivered by XYZ Directorate	Detailed list of activities in FY17 and FY18
Estimated time period to complete activity	January 2017 to June 2018
Key performance indicator{s}	Percentage of SOEs covered by database
Estimated cost of activity	Total
<i>Capital</i>	<i>Cost of A in FY17, B in FY18</i>
<i>Recurrent</i>	<i>Cost of C in FY17, D in FY18</i>
Consultancy support	Yes, short-term advisor from World Bank, salary paid by the Bank
Financing	X covered by donors' common fund, Y by budget, leaving a gap of Z
Measures to cover financing gap	To be determined
Capacity building	Training program for operational staff to be prepared by World Bank consultant
Reporting on progress	Monthly reports to Permanent Secretary and CEDSIF

Source: IMF Staff

- Capacity building.** The *Strategic Plan* includes only very limited information on the training and other capacity building activities that will be required, both for staff of the MEF and the executing agencies in the central government and regions. CEDSIF informed the mission that some preliminary work on capacity building requirements had been done³, but this would be disclosed in a separate document. Capacity building activities will need to be costed and integrated in the operational plans of the respective directorates. This is a critical element to ensure that the *Strategic Plan* is well implemented and does not remain a purely paper exercise. Wide consultations at all levels of government will be required, and the streams of capacity building work aligned with the operations of the soon-to-be-established Higher Institute of Public Finance and Taxation (Box 1) and existing training facilities.

³ The mission was not provided with any further information on this issue.

Box 1. Mozambique's New Higher Institute of Public Finance and Taxation

It is expected that the government will open its long-planned *Instituto Superior de Finanças Públicas e Estudos Tributários* in mid-2017. The Institute will provide Bachelor's and Master's level degree courses in public finance and taxation for civil servants and high-school graduates, as well as short courses in a range of specialized public finance topics. The Institute is planning an initial intake of 200 students on its Bachelor's program (five years), and 90 students on its Master's program (three years), with a total capacity of 800 students. The Institute will have two arms, one focusing on public finance issues, the other on taxation. There will be a permanent, full-time faculty and, in addition, guest lecturers will be invited from the civil service and academia. The Institute has entered into an arrangement with the Mozambique Association of Accountants and the Association of Internal Auditors in Mozambique, which should help improve professional standards in these two important fields. Courses provided by the Institute will not replace specialized training for operational staff, e.g., delivered by CEDSIF on the e-SISTAFE modules.

Source: IMF Staff

- **Prioritization of PFM reform measures.** The *Strategic Plan* provides a helpful set of high-level guidelines for strengthening public finances over the medium term. The *Plan* is less useful, however, as a strategy for planning and sequencing PFM reforms which should be given the highest priority over, say, the next 12 to 18 months. In addition, important PFM reforms that have been identified in previous FAD reports or in the 2014 Fiscal Transparency Evaluation⁴ are not included in the *Plan*, nor are the specific recommendations on fiscal risks that are discussed later in this report. The present mission also makes some important recommendations on budget execution and payroll management which could be included in the prioritized action plan. Such a plan could be updated annually and published as an annex to the *Strategic Plan*. The specific measures should be discussed with the development partners, who might provide technical and/or financial support for implementing them. The plan could also incorporate any structural benchmarks on PFM that are agreed as part of a future program with the IMF.
- **Legislative basis for PFM reform.** FAD's TA report of November 2015 recommended that the SISTAFE Law be updated⁵. It will be important to prepare a revised version of the law in order to facilitate the reforms set out in the *Strategic Plan*, but this action should not take precedence over other more urgent reforms, and could be delayed until 2018.

⁴ IMF, *Republic of Mozambique: Fiscal Transparency Evaluation*. Country Report No. 15/32, February 2015.

⁵ Op. cit., page 11.

Recommendations

- **Recommendation I.A.1.** Ensure that the *Strategic Plan for Public Finance, 2016-2020* is finalized and approved by the Council of Ministers, and gives particular emphasis to a public sector-wide approach to PFM reform. (December 2016)
- **Recommendation I.A.2.** Include an updated action plan on fiscal transparency (FTAP) as an annex to the Strategic Plan. (December 2016)
- **Recommendation I.A.3.** Update the *Strategic Plan* to accommodate the provisions and structural benchmarks included in any new program that is agreed with the IMF, and otherwise on an annual basis. (December 2017 and annually)
- **Recommendation I.A.4.** Prepare detailed operational plans for implementing the objectives, targets and actions outlined in the *Strategic Plan*, and assign responsibilities to the respective directorates and units of the ministry for delivering these objectives. (June 2017)
- **Recommendation I.A.5.** Prepare a detailed plan for building capacity in PFM at all levels of government, and assign responsibilities to the directorates and units of MEF for implementing the required measures. (June 2017)
- **Recommendation I.A.6.** Prepare an action plan of short-term (12-18 month) PFM reform measures that could be annexed to the Strategic Plan, updated periodically, and reflected in the operational plans of individual directorates. (June 2017)

B. Governance and Coordination Mechanisms

Current Situation

5. The governance arrangements for managing and coordinating PFM reforms have improved but could be strengthened further. FAD's November 2105 mission report recommended that the MEF establish a formal mechanism for discussion of PFM reform issues with donors and other stakeholders⁶. As noted in Section 1 A, the MEF has consulted with the development partners on the preparation of the *Strategic Plan for Public Finance, 2016-19*. Nevertheless, there is scope for formalizing these arrangements, clarifying responsibilities for leading and managing PFM reforms at senior levels of the MEF, and ensuring that the partners are consulted on a regular basis.

⁶ Op. cit., page 16.

Assessment

6. To strengthen arrangements for managing and coordinating implementation of the *Strategic Plan*, the following issues should be considered.

- **Leadership.** Senior management of the MEF has taken a back seat on the preparation of the *Strategic Plan*. At a technical level, the work has been led by CEDSIF, which has coordinated the work with the policy directorates of the MEF. At a senior level, the MEF's senior Technical Committee chaired by the Permanent Secretary has played a role in supervising the preparation of the *Plan*, but the involvement of the Minister, Vice Minister or Permanent Secretary has been limited. Meetings of the development partners have been arranged with CEDSIF, but not with the senior management of the MEF. In the mission's view, it is important that senior management takes a stronger role in the finalization and implementation of the *Strategic Plan*. This could be organized through the Technical Committee or, alternatively, through a *Special Committee for the Implementation of the Strategic Plan*, chaired by the Minister, Vice Minister or Permanent Secretary, with representatives of the respective directorates of the MEF, CEDFIF, together with the development partners. Funding of the reform measures included in the *Plan* will be a critical issue for the MEF to discuss with the partners.
- **Funding of the *Strategic Plan*.** As noted above, broad estimates of the cost of implementing the *Plan* have been prepared by CEDSIF, but much more detailed estimates will need to be prepared, at the level of individual activities and actions, before implementation of the reforms can begin. The development partners are willing in principle to finance some of these activities⁷, and could do so bilaterally or, perhaps more efficiently through a common fund. The amounts required, and the funding mechanisms/modalities, however, need to be discussed and agreed with the authorities at a senior level. At this stage, not even a broad envelope for such funding has been disclosed by CEDSIF or the MEF.
- **Monitoring implementation of the *Strategic Plan*.** CEDSIF informed the mission that two existing groups—the Forum of e-SISTAFE Users (FUE) and the National SISTAFE Committee (RUE), which meets annually—would be formal responsible for monitoring implementation of the *Plan*, but these arrangements will need to be reinforced by the establishment of the *Special Committee* noted above. The Minister should be updated every three months on progress on implementing the *Strategic Plan*, and the Council of Ministers should be updated annually. At the technical level, the MEF's National Directorate for Monitoring and Evaluation (DNMA) would be responsible for monitoring the implementation of the *Strategic Plan*, but their work will need to be supported by

⁷ The World Bank, for example, informed the mission that they are planning to provide support in key areas such as the appraisal and selection of infrastructure projects, debt management, the management of state enterprises, and development of the medium-term fiscal framework.

CEDSIF in establishing a monitoring framework and undertaking the assessments. More importantly, the development of detailed operational plans and a capacity building program would also require monitoring, at a much more detailed level. The role of CEDSIF and the DNMA in this process would need to be clearly defined. Decisions will also be required by the MEF on the mechanisms for feeding back the results of monitoring to the directorates and agencies with front-line responsibility for implementing the reform programs, and remedial actions to be taken should progress fall short of expectations.

- **Mandate of the Special Committee.** With the technical support of CEDSIF and the DNMA, the *Special Committee* could take supervisory responsibility for: (i) finalizing the preparation of the *Strategic Plan*, and its annual updates; (ii) preparing the detailed operational and capacity building plans that will be prepared by directorates to implement the *Plan*; (iii) preparing the action plan of short-term priority PFM reform measures that would be annexed to the *Strategic Plan*; (iv) monitoring the implementation of the *Strategic Plan*, and providing feedback to the project managers where performance is lagging; (v) preparing regular reports to the Council of Ministers on progress in implementing the *Plan's* KPIs; and (vi) liaising with the development partners on the financing of activities that support the implementation of the *Plan*. Development partners should be invited to participate in meetings of the Committee, especially when funding issues are being discussed.

Recommendation

- **Recommendation I.B.1.** Establish a *Special Committee*, chaired by the Minister, Vice Minister, or Permanent Secretary to supervise the finalization and implementation of the *Strategic Plan*, and provide leadership on PFM reform to the operational directorates and units in the MEF, and other stakeholders. The *Committee* should hold regular meetings with the development partners to ensure the partners' shared ownership of the *Plan*, and secure necessary funding. (April 2017)

II. STRENGTHENING THE BUDGET EXECUTION PROCESS

A. e-SISTAFE Development and Implementation

Current Situation

7. Previous FAD missions⁸ highlighted the substantial progress on the rolling out and coverage of e-SISTAFE and made recommendations to further focus on users' training and operational performance. In June 2016, 87.6 percent of the 1525 Beneficiary Management Units (UGBs)⁹ were covered by e-SISTAFE, against 84 percent in October 2015. The remaining gap in coverage results from non-compliance with the minimum requirements for operating e-SISTAFE. Some of the installed sites faced challenges resulting from lack of regular supply of electricity, malfunctions of the equipment, poor network connectivity, and lack of maintenance of equipment. As a result, during the first quarter of 2014, 14 percent of the sites were inoperative at the national level, peaking at 38 percent inoperative sites in the North Region. The substantial administrative coverage and the extension of functionalities allowed the authorities to increase the number of payments made through the Single Treasury Account (TSA) to 74.7 percent in December 2015. Wage payments made through the Salary Payment System (e-Folha) also increased to 90.8 percent, significantly improving the internal control of the payroll. CEDSIF have also stepped up their training of finance staff.

8. The change management plan (see Box 2) could leverage the feedbacks of the e-SISTAFE users' forum¹⁰. A number of competing tasks in a context of limited capacity and resources lead to prioritization of activities. A users' forum conducted¹¹ in 6 provinces (including district level) allowed an increase of number of users who have benefited from retraining (1,803). Up to February 2017, CEDSIF expected to retrain 7,000 users in four main topics: stages of budget execution, wages process and payment, bank account registration and maintenance, and e-SISTAFE safety procedures. These forums have stressed that the limitations the users face to perform the different stages of expenditure execution (i.e. commitment, verification and payment) results from:

- Technical problems: internet downtime, electricity problems, and system slowdown;

⁸ IMF, FAD, Xavier Rame, Richard, Allen, Imran Aziz, Jean-Luc, Esther Palacio, Veronique Salins, Rafael Sousa, Carolina Renteria, and Merle Wilkinson, "*Strengthening Fiscal Institutions in Mozambique*", November, 2015

⁹ Used to designate an autonomous funds receiving institutions in State budget

¹⁰ The e-SISTAFE users forum was established by CEDSIF in 2015 to create a communication space where users from different provinces, including districts, can discuss and analyze issues and needs with CEDSIF.

¹¹ CEDSIF, *Global Report of 1st e-SISTAFE user forum (FUE)*, Nampula, Tete and Gaza, April 2016 and CEDSIF, *Global Report of e-SISTAFE, user forum, Cabo Delado, Zambezia and Inhambane*, July, 2016

- Capacity constraints: limited training and access to law and regulations by the e-SISTAFE users and lack of update on the system updates or changes,
- Organizational arrangements: users have in certain circumstances to travel to distant sites to input their transactions. Due to the limited resource to fund this kind of travels, a frequent practice is to have only one user travelling and using access rights from the other ones to enter and validate the transactions, breaching the segregation of duties rules and basic internal control.

Assessment

9. e-SISTAFE is part of the broader ongoing PFM reform aiming at improving the budget execution process. The effectiveness of e-SISTAFE depends significantly on the extent to which it is comprehensive in covering the government's financial transactions through the various phases of the expenditure process. However, the recording of transactions in e-SISTAFE still usually takes place at the time of payments. This situation impairs the ability of e-SISTAFE to provide the relevant information to manage effectively the budget execution and control the commitment process.

10. Most e-SISTAFE users have been trained and limitations in capacity may not wholly explain some weaknesses in the budget execution. As advised by previous missions, changing the users' work habits and behavior is a key enabler of an effective overhaul of budget execution procedures. In this context, CEDSIF is implementing a change management plan aiming at strengthening the use of e-SISTAFE as a management tool.

Box 2. e-SISTAFE Change Management Plan

The operational change management plan aims at supporting users and organizations to transition to new business process. It focuses on two main levels:

1. The **process level** aims at monitoring developments of e-SISTAFE modules and enabling a coordinated action strategy.
2. The **institutional level** aims at covering all main e-SISTAFE actors and aligning them across all changes events.

It is organized in three **levels of intervention**:

- Multisector reform management to (i) coordinate e-SISTAFE, (ii) create institutional alliances, (iii) involve other sectors in decision-making, and (iv) sponsor, negotiate and monitor the degree of acceptance and integration of e-SISTAFE.
- Reform management (lead by CEDSIF) to improve the internal communication, provide support to e-SISTAFE users, establish change management teams at the base level, provide training, including tools and methodologies to conduct change with success and monitor the SISTAFE implementation.
- Training of trainers, based on trainers from the central level o, CEDSIF provincial delegations.

Source: Change Management Plan, November 2015

11. In the context of the progressive rollout of e-SISTAFE, short-term measures could be applied to continue to improve its usage and implementation. Although CEDISF have been improving the business processes embedded in e-SISTAFE, further consolidation of the SISTAFE reform implies providing training, including the dissemination of the legal framework (laws, regulations, procedures). An analysis of the costs and benefits of a possible recentralization of the financial functions could assist in determining more effective ways to use the system, particularly in areas with limited resources. In addition, embedding rules in the system to enforce mandatory time lags between the various phases in the expenditure process could also contribute for better use of the system.

Progress in implementing the November 2015 mission’s recommendations have been limited, especially regarding the implementation of the asset management, e-tax implementation, planning and budget subsystem modules. The implementation of these modules would support the achievement of some of the strategic objectives of the draft Public Finance Strategic Plan (“E - Improve State Asset Management” and “B – Increase the State revenue collection”). Delays are explained by the authorities as the result of the limited availability of funding. To further increase the full use e-SISTAFE, CEDSIF is also exploring the possibility to develop access to e-SISTAFE through internet and mobile phone.

Box 3. e-SISTAFE implementation

- State Asset Management: Until June 2016, human resources have been allocated to initiate the development of new features of the State asset management subsystem, asset management component and public procurement. CEDSIF expect to finalize it in 27 months.
- e-tax: a contract was signed with a consortium (NBMSIT, Novabase e Intrasoft Internacional) to implement the remaining features of e-tax.
- Budget and planning subsystem (SPO): The schedule of activities related to the budget and planning subsystem was finalized and terms of reference for specialized consulting services were prepared. This activity is facing resources constraints.

Source: CEDSIF activities report (June 2016)

Recommendations

- **Recommendation II.A.1.** Further focus on e-SISTAFE users training and retraining and ensure the implementation of the change management plan (Annually).
- **Recommendation II.A.2.** Perform a cost-benefit analysis of the recentralization of some financial functions. The results should provide guidance on how to proceed to improve the overall effectiveness of system (April 2017).

B. Budget Execution Procedures

Current Situation¹²

12. Real time recording of commitments is not ensured though technically possible through e-SISTAFE. The November 2015 mission noted that the e-asset module of SISTAFE (MPE), which includes a procurement functionality, was planned for roll-out in 2016, and the extension of the budget execution module (MEX) were expected to improve the real-time recording of commitments of non-salary expenditure. The roll-out of the module was not achieved in 2016. CEDSIF confirmed to the mission that the implementation of MPE and its connection to MEX would ensure real time registration. Nevertheless, the roll-out of the module was not achieved and commitments. development of MPE is now at risk due to financial resource shortage. There is currently no clear perspective about the time required for a complete implementation.

13. As the timely recording of the stages of budget execution (commitment, verification, and payment) is not systematically monitored, the extent of improper use of e-SISTAFE is not quantified. The November 2015 mission noted that “*in many cases*” the three stages were carried out in e-SISTAFE over a short period. The explanation given to the mission was that in practice budget units (UGE) compute the amount of unpaid invoices, then seek funds from the Treasury (DNT) and only then register at once the three stages. It was noted that CEDSIF had started to identify users who register the three stages the same day. No data were provided to the mission that would allow to effectively assess the extent of this issue. IGF indicated that these cases were “sporadic” but did not provide any data to back-up this assertion.

14. The number of accounts held outside the TSA for public spending has decreased but amounts held and exact purpose of transactions executed in those accounts are not monitored. The mission noted that the most recent figure about the number of off-TSA accounts was 4,000, against 11,000 in 2013. However, DTN reported that off-TSA accounts are often created without its prior approval and information. They acknowledged that a detailed mapping is required to identify amounts, balances, purpose of operations, and effectiveness of transfer to TSA. At the same time, the expenditure processed through advances to budget managers and subsequent reporting and accounting (via *indireta*¹³) is decreasing (from 65 % in 2014 to 85% of spending in December 2016). The objective of using this procedure only in exceptional cases is not yet achieved.

15. As a consequence of the weaknesses mentioned above, reliable and complete information on government expenditure and liabilities is not available in real time. This creates a risk of accumulation of arrears and budget slippage. Since arrears monitoring is weak,

¹² See IMF, FAD, “*Strengthening Fiscal Institutions in Mozambique*”, November, 2015; IMF, FAD, *Requisitos Para Melhorar Os Controlos Da Execução Orçamental*, September, 2016

¹³ Cash payment

(continued...)

their accumulation¹⁴ was not evidenced so far and needs to be measured through a detailed analytic survey, as recommended by the April 2016 FAD mission and agreed by the government. Such analysis should be the starting point of the implementation of an effective system to monitor arrears. The adoption of the Decree 5/2016 art. 119 that provides a clear legal definition of arrears is a progress.

Table 3. Budget Execution Rate (2012-2015)

	2012	2013	2014	2015
Total revenue	103%	111%	102%	93%
Total expenditure (1)	92%	101%	91%	104%
Goods and services	102%	102%	98%	110%
Current transfers	99%	97%	101%	103%

(1): total expenditure minus net loans

Source: State Budget Execution Report, 2015

Assessment

16. Cash flow management constrain real time recording of commitment. Due to cash rationing, the Treasury imposes a tight link between commitment recording and short term cash availability. Commitments can be registered only after the Treasury has formally released a "Limite de Cabimentacao" (UGEs limit for commitment) to the UGE. This limit corresponds to available cash to be spent during a time slot of one week in the following month. When the UGE request a "limit for commitment" from Treasury, it does not receive an immediate answer from the Treasury. Often, the UGE has to wait at least one month to register the commitment. The mission noted that this situation was much more frequent in 2016 than in 2015. Since request for limits, in practice, are send only after invoices are received, the risk of accumulating arrears is very high (if not inevitable). This practice prevents from recording commitments in e-SISTAFE at the date where they are effective (invoicing) and for their total amount. An improved and secure cash flow forecasting could allow to untie registration of commitment and weekly cash limit, but this needs to be carefully prepared and would not be a solution in the short term.

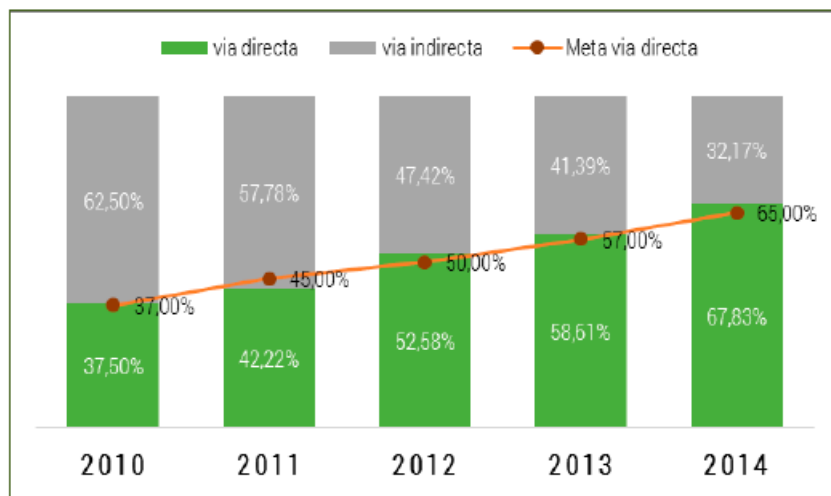
17. As a consequence of the centralized cash management, the Treasury is overloaded and cannot focus on improving cash flow forecasting. The mission noted that some discussions exist on the feasibility of the decentralization of cash flow management with the objective of (i) reducing the pressure on the central treasury unit by transferring the authority to release cash to the MEF delegation (DPEF) at the provincial level and (ii) providing a better response to the needs of local budget execution units. This possibility should be further examined in the medium term.

¹⁴The PEFA 2015 evaluation report considers that the accumulated value of payment arrears is likely to remain low, but that they are weaknesses in the monitoring of payment arrears.

18. Transformation of UGBs into UGEs has further decentralized budget execution. At the time of the mission, 1,599 UGBs were in place out of which 1,299 were using e-SISTAFE. Decentralization of budget execution allows budget units to use direct payment procedure and allows for more efficient monitoring of execution in real time.

19. The use of indirect payment procedures based on advances to budget units and ex-post commitment has decreased to around 15 percent. The ratio, however, should be allowed to decrease further until it is only used in exceptional circumstances.

Figure 1. Budget Execution Through Normal Procedure



Source: CEDSIF

20. The increasing use of the TSA and closing of accounts outside the TSA should improve monitoring of budget execution. The mission noted however that a consolidated vision of all bank accounts used for budget execution is still missing. It was also reported to the mission that the recent move of major donors to use again bank accounts outside Government system created an adverse trend. It was suggested by CEDSIF that external evaluation by donors of budget execution reliability should proceed as fast as possible.

21. There is clearly a risk of accumulating expenditure arrears, but there is no quantitative information about the stock or flow of arrears, and no monitoring system. At the date of the current mission, entities responsible for each phase of the action plan on arrears recommended by the April 2016 mission had not be defined yet. The April 2016 mission noted that the allocation of responsibilities had not been clearly organized for each component of the action plan namely: realizing an analytical survey by type and vintage; realize an audit; preparing a plan to clear the existing stock; publishing monthly information on commitments and arrears, including those outside e-SISTAFE. Based on in depth discussion with IGF and CEDSIF, the mission considers that the action plan should be adapted to technical and human resources available. A possible approach to organize the first stage of the action plan is presented in Box 4.

Box 4. Gathering Data on Payment Arrears from Contracts

Questionnaires: As there are more than 1 500 budget execution units in the country and there is no standardized system to register invoices received in each unit, auditors or inspectors in charge of compiling arrears would have to visit all units to have an exhaustive list of invoices received and not registered in e-SISTAFE. Using questionnaires could be the best way to proceed efficiently. Budget unit managers would be requested to provide detailed information and if they do not, on-site inspection should be performed.

Asking confirmation to suppliers and contractors: based on a sampling approach, IGF could, at the same time, ask some suppliers to confirm the amount and dates of their unpaid invoices.

Source: IMF Staff

22. A new feature of e-SISTAFE implemented in 2016 is the possibility to issue a “commitment note” but the way it is used does not allow to monitor commitments. The commitment note (*nota de compromiso*) is an official statement which may be printed out from e-SISTAFE and sent to suppliers to confirm that Government has resources to pay what is ordered. It was designed to increase suppliers’ confidence. If it was issued at the date of the purchase order, and if the latter was registered in e-SISTAFE, it would be a valid source of information to monitor budget execution. But as it can be generated only when a commitment is registered in e-SISTAFE and as purchase orders are issued outside e-SISTAFE the “*nota de compromiso*”, so far, does not bring added value to the control of budget execution.

23. As parallel systems of registration are maintained at budget unit level, relevant information is recorded outside of e-Sistafe but remain unavailable for budget monitoring. Transmitting parallel information on budget execution kept at sector level – e.g. data on potential financial impact of contracts - to central Treasury, might be envisaged as a temporary solution until e-SISTAFE modules are operational.

Table 4. Recording of the Budget Execution Stages	
Stages of budget execution	Current Practice
Appropriation allocated to the UGB	Loading in e-SISTAFE
Procurement based on procurement plan	No action. Parallel recording of commitment
Signature of contract	Should be registered in e-SISTAFE but real practice is unclear given the link with commitment and cash release.
Contract approved by TA	No action. Parallel recording of TA approval
Purchase order	Should be registered in e-SISTAFE and commitment code should be generated (<i>nota de compromisso</i>); real practice likely to be different and parallel record is probable.
Approval by the authorizing officer	No registration in e-SISTAFE
Invoice received	Date is now recorded
Service or product delivered	No action
Verification of service/good delivery by procurement management unit	No action in e-SISTAFE. No access to e-SISTAFE of procurement management unit (<i>UGA</i>)
Need for funds to pay	Request for commitment limit sent to DTN through e-SISTAFE
Cash released by DTN	Limit notified through e-SISTAFE
Commitment	Registered in e-SISTAFE
Verification of invoice and liquidation by the compliance officer	Registered in e-SISTAFE
Payment	Registration of commitment

Source: CEDSIF

24. Improvement in monitoring the budget execution could be made in the short-term by using existing data. Budget execution units, at sectoral level, record data of their contracts, which include total amount, in separate files (Excel-sheets). The mission noted that this information may be used at the ministry level but is not consolidated. It was confirmed to the mission that consolidation of data on contracts would provide more accurate information on the use of budget allocation and of the remaining allocation.

25. Segregation of duties at budget unit level is clearly defined but not yet effective in practice. In spite of the extensive program of training in 2016, the mission notes that behavior of staff and appropriation of rules and principles remains a concern. It was explained to the mission that any user of e-SISTAF is requested by a permanent message to avoid using the password of any colleague. The simultaneous registration of Commitment, Verification and Payment is made possible insofar a single agent can use password and e-profile of the committing officer (*agente de cabimentação*), the verification officer (*agente de liquidação*) compliance officer (*agente de*

*control interno*¹⁵). It has been reported to the mission, however that this situation may be due to the lack of staff in some units.

26. Lack of capacity and insufficient staff management remain a constraint despite a substantial effort in training. As a result, segregation of duties is clearly stated but not consistently implemented by staff in many Budget Execution units (UGE) and staff are used to maintain parallel records. The mission noted that in 2011 CEDSIF had defined a control report on the extension of incorrect use of e-SISTAFE, a report that the system could generate at zero cost. A similar reporting should be implemented in 2017 on a regular basis and specific assistance and training should be provided to the less performing units.). Staff is used to maintain parallel records.

Box 5. Using Purchase Orders and e-Invoicing Portal: International Experience

In some countries (Zambia, Kenya, Namibia, Botswana) suppliers have been informed in the Press and on TV that no Invoice will be accepted for payment if the delivery of goods and services is not based on an IFMIS issued Purchase Order with an associated Purchase Order number. The suppliers must be notified that only IFMIS issued Purchase Orders will guarantee payment. This would lead suppliers to request a Purchase Order from government officials and would, logically, lead government officers in charge of procurement and purchases from private sector suppliers to launch commitments in the system to be able to issue Purchase Orders.

This alone has helped the countries reduce commitment outside of the IFMIS.

Moreover, in some advanced economies the Ministry of Finance has introduced e-Invoicing where the Invoice from the supplier must be submitted through a Government operated e-Invoicing portal linked to the IFMIS. In this type of setup, the purchase order number must be provided to submit the invoice.

Taken together, these two initiatives would make it difficult to bypass the budget execution phases, and in particular, would strengthen the ability to secure effective commitment in the e-Sistafe.

Source: Mission

Recommendations

- **Recommendation III.B.1.** Realize a comprehensive mapping of all accounts held outside the TSA for budget execution so as to obtain a vision their balances and operation and a good vision of the risks they may create, before the end of 2017.
- **Recommendation III.B.2.** Implement a regular reporting system using data available in e-SISTAFE in order to monitor cases of incorrect processing and take immediate action.

¹⁵ The name is confusing, since despite his name, the *agente de controlo interno* is not included in the internal control component of the SISTAFE but is member of staff of the budget and without any autonomy. It will be renamed compliance officer "*agente de conformidade*"

- **Recommendation III.B.3.** Consolidate data on contracts recorded by sectors in order to monitor the first stage of budget execution and to establish a control on “pre - commitments”.

III. MANAGING THE CIVIL SERVICE WAGE BILL

A. Wage Bill Planning and Budgeting

Current Situation

27. The December 2015 Letter of Intent from the authorities to the IMF includes several objectives regarding wage bill policy and wage bill management¹⁶. With regards to wage bill policy the authorities committed to reduce the wage bill by 0.2 percent of GDP in 2016 compared to 2015 through: (i) the implementation of a “proof of life” policy for all government employees, and (ii) limiting new hiring, excluding the health, education, agriculture and police sectors. With regards to overall wage bill management, the authorities committed to roll out the coverage of the e-Folha IT system to all government institutions connected to e-SISTAFE.

28. The various planning instruments and documents do not provide detailed information on the assumptions underlying wage bill planning. Both the *Cenário Fiscal de Médio Prazo* (MTFF), which is supposed to guide the planning and budgeting process with medium-term estimates of revenues and expenditures, and the budget documentation present wage bill data at an aggregated level, and does not detail the underlying assumptions¹⁷.

Box 6. Compensation, Wage Bill, Payroll, Allowance

Compensation: Any form of payment made to an individual for services rendered as an employee for an employer. It includes mainly: salary, wages and bonuses; vacation pay; military pay; allowances.

Wage Bill- Payroll: Sum total of all compensation an employer must pay to its employees for a set period of time or on a given date. It consists of all payments in cash, but not in kind, to employees in return for services rendered, before deduction of withholding taxes and employee pension contributions. Monetary allowances (e.g., for housing, transportation) are included in the wage bill. Pensions are not.

Allowance: In addition to the basic salary, employees may receive various allowances depending on their personal circumstances (housing, transportation, family). The final salary is calculated by adding the relevant allowances and by deducting social security contributions and other taxes.

Source: World Bank, Measuring Government Employment & Wages,

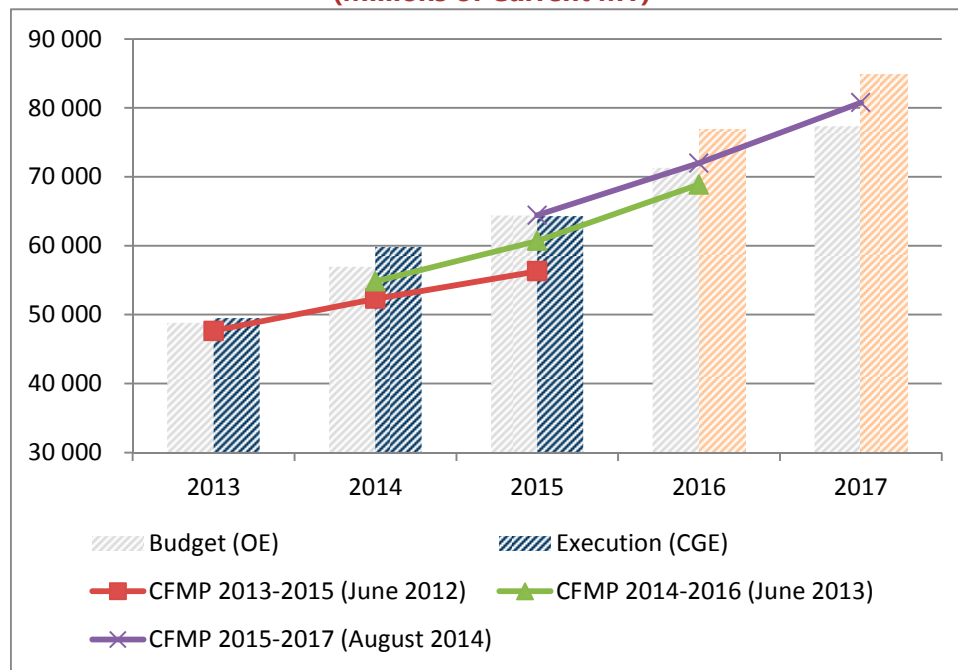
¹⁶ Republic of Mozambique: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding, December 2015.

¹⁷ IMF, FAD, Holger van Eden, Richard Allen, Margarida Azevedo, Esther Palacio, Xavier Rame, and Mike Williams, “Refocusing The Public Financial Management Strategy”, March, 2014

29. While past MTFFs underestimated both the budgeted and actual wage bill, the 2015 and 2016 budgets have been consistent with the ceilings set in the 2015-2017 MTFF. Figure 2 compares three successive vintages of the MTFF with the initial budget and its outturns. It illustrates the drift in the level of expenditure occurring with each subsequent MTFF projection, and their limited value as multi-year planning instruments.

30. Figure 2 also shows that although budgets for 2016 and 2017 are consistent with the MTFF ceilings, conservative forecasts of payroll expenditure¹⁸ are expected to result in a substantial overshooting of the budget in both years. This finding calls into question the robustness and reliability of wage bill execution and forecasting process.

Figure 2. Evolution of the MTFF Compared to the Initial and Executed Budgets (2013-2017)¹⁹
(Millions of Current MT)



Forecast for 2016 and 2017: IMF mission conservative estimate (based on a low rate of increase in the payroll)
Source: IMF Staff, authorities (CFMP, OE, CGE)

31. The model used by the MEF for making projections of salary expenditure is rudimentary, although effective for the purpose of short-term forecasting. In preparing forecasts, the MEF uses financial data from e-Folha and, in order to forecast the number of promotions and their financial impact, information from the Electronic System for the Register of

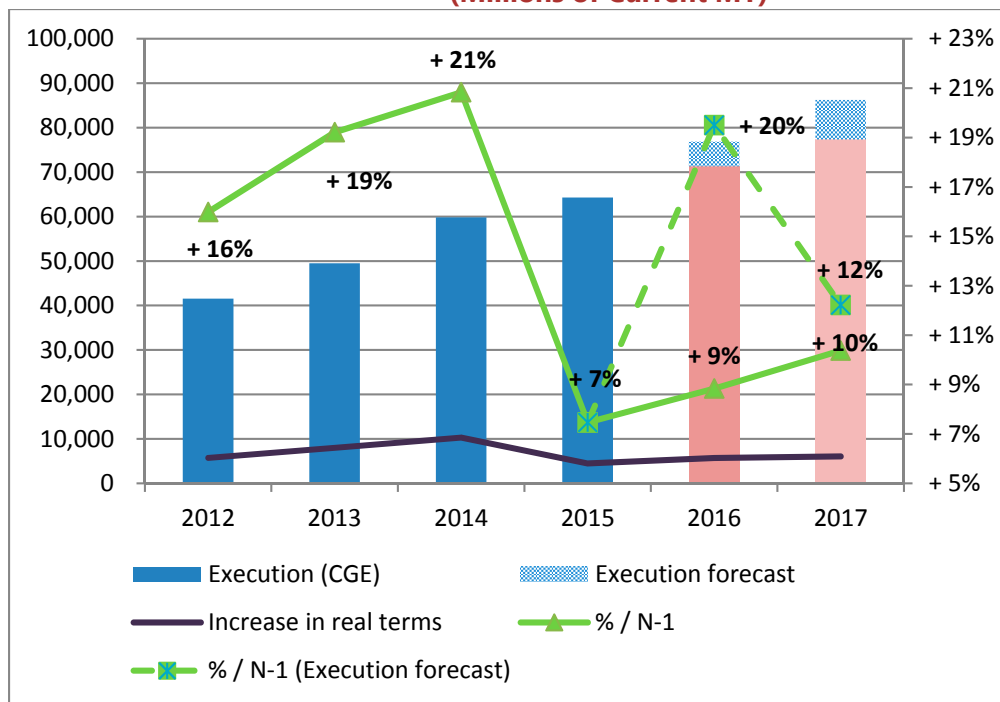
¹⁸ Based on the most recent budget execution report, October 2016.

¹⁹ At the time of the mission the 2016 – 2018 and 2017 - 2019 MTFF had not been published.

(continued...)

Employees and Agents of the States (e-CAF). These data are adjusted for expected inflation, wage increases, and the estimated productivity increase of the economy²⁰. The forecasts are based only on monetary values and does not include any analysis of the underlying composition of the work force, staff numbers, categories of employment, the professional status of staff, etc. The projections, which are carried out by the *Gabinete de Estudos* of the DNPO, are broken down at the level of sectors, provinces and districts, and for each of their budget units. A *cativo* (or reserve) of 15 percent is maintained in the payroll line of each budget unit until released by the MEF. An overall objective of maintaining the overall ratio of salaries to GDP below 10 percent guides the forecasting process.

Figure 3. Wage Bill Execution (2012-2017)
(Millions of Current MT)



2016: Supplementary Budget; 2017: Initial Budget (September 2016)

Source: IMF Staff, authorities

32. The annual increase of payroll has significantly contributed to the increase of operating expenditure. A recent report²¹ noted a 20 percent real growth of the wage bill from 2013 to 2014. This increase is associated to a higher than expected hiring of new employees (*"Funcionários e Agentes do Estado"* - FAE) and agents of the State, as well as to the salary increase decided in 2014. The Fiscal Risk Statement, published by the Authorities in 2015, states

²⁰ Israel Fainboim, Franselmo Costa, Mauro Fridman e Francisco Moreno, *Requisitos Para Melhorar Os Controlos Da Execução Orçamental*, IMF (FAD), September, 2016

²¹ *Review Report on the Administrative Court Report and Opinion on the State Accounts of 2014*, April, 2016 (This report produced by consultants was intended for the General Budget Support Partners (GBS-P) in Mozambique)

(continued...)

that "operating expenditure has consistently been higher than expected in the last six years, with the exception of 2013. Since 2011, wage pressures (including financing of new positions) have been an important factor for this trend. This is explained by the expansion of social services outlined in the Millennium Development Goals."²²

Box 7. Government Compensation in the Republic of Mozambique compared to other LIDCs

The wage bill represents 10.9 percent of GDP in 2015. While the budget assumes that the ratio will decline to less than 10 percent in 2017, the forecasted execution in 2016 and 2017 shows a figure closer to 11 percent. On average, spending on the government wage bill is around 10 percent of GDP in advanced economies compared to 7½ percent of GDP in low-income developing countries (LIDCs), with emerging market economies lying in between²³. The weight of staff costs in Mozambique is thus closer to that observed in advanced countries than in LIDCs.

Until 2014 the wage bill as a share of total government expenditure is stable and represents less than 30 percent of total expenditure (50 percent of operating expenditure). However, as from 2015, it has increased above 30 %. It is unclear how this ratio will develop from 2016, due to the upward drift in salary expenditure following the projections of salaries for 2016 and 2017. Nevertheless, the ratio in Mozambique is comparable to other emerging markets and LIDCs representing an average of 27 percent of total expenditure²⁴.

Source: IMF Staff

**Table 5. Wage Bill in Percent of GDP (2014-2017)
(Millions of Current MT)**

	2014	2015	2016	2017
Wage Bill Budget	56 959	64 397	71 308	77 362
Wage Bill Execution <i>(IMF forecast for 2016-2017)</i>	59 831	64 299	77 000	86 300
Nominal GDP <i>(Moz. Gvt data)</i>	534 533	589 294	694 462	802 900
Nominal GDP <i>(WEO database)</i>	531 777	592 024	686 718	796 936
% GDP <i>(MEF data and forecast)</i>	11,2%	10,9%	10,2%	9,6%
% GDP : IMF forecast for 2016 and 2017			11,2%	10,8%

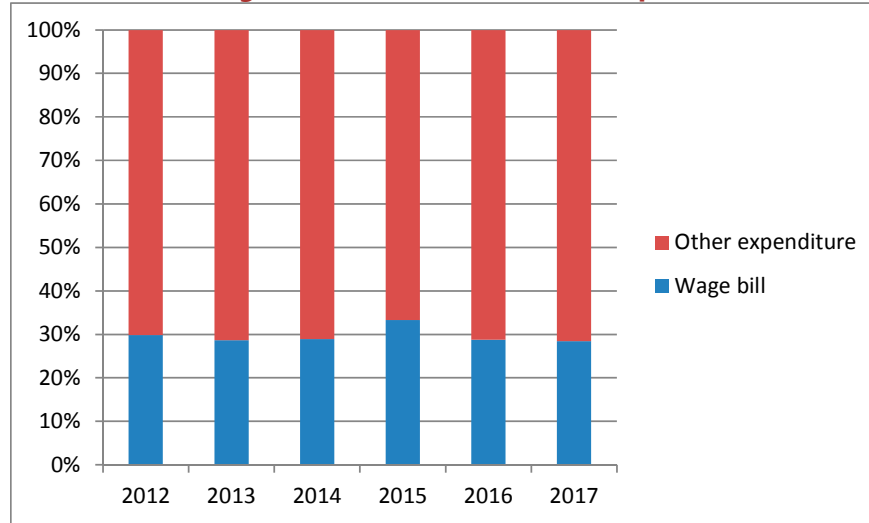
Source: IMF Staff, authorities

²² Declaração de Riscos Fiscais, November, 2015

²³ IMF Staff Paper, *Managing Government Compensation and Employment—Institutions, Policies, And Reform Challenges*, June 2016.

²⁴ IMF Staff Paper, 2016.

Figure 4. Share of Wage Bill in Total Government Expenditure (2012-2017)



2016: Adjusted Budget. 2017: Initial budget (September, 2016)

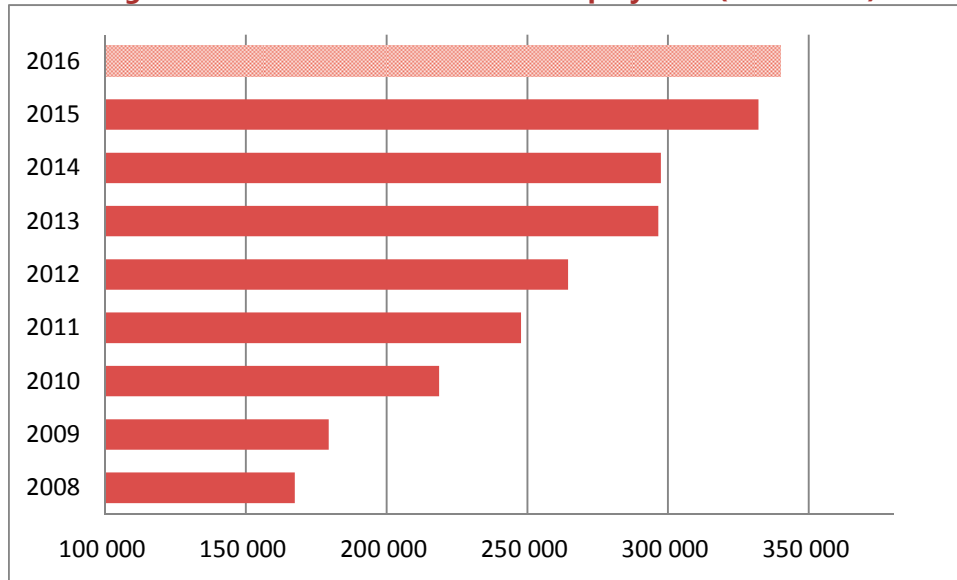
Source: IMF Staff

33. The number of government employees doubled between 2008 and 2016 while the Mozambican population increased by 25 percent.²⁵ The MEF estimates that the number of employees and agents of the State ("*Funcionários e Agentes do Estado*" - FAE) will grow from 332,155 in 2015 to 339,999 at the end of 2016²⁶.

²⁵ From 23 million in 2008 to 28.7 million in 2016 (source: WEO database, October 2016).

²⁶ This increase is the result of the difference between new hiring (13,733 in 2016) and retirements. Within the total, 301,153 were registered in the e-CAF were at the end of June 2015, with a target of 315,699 FAE (93 %) by December 2016²⁶. The difference in the two figures (339,999 and 315,699) is due to e-CAF does not include military, police and security services.

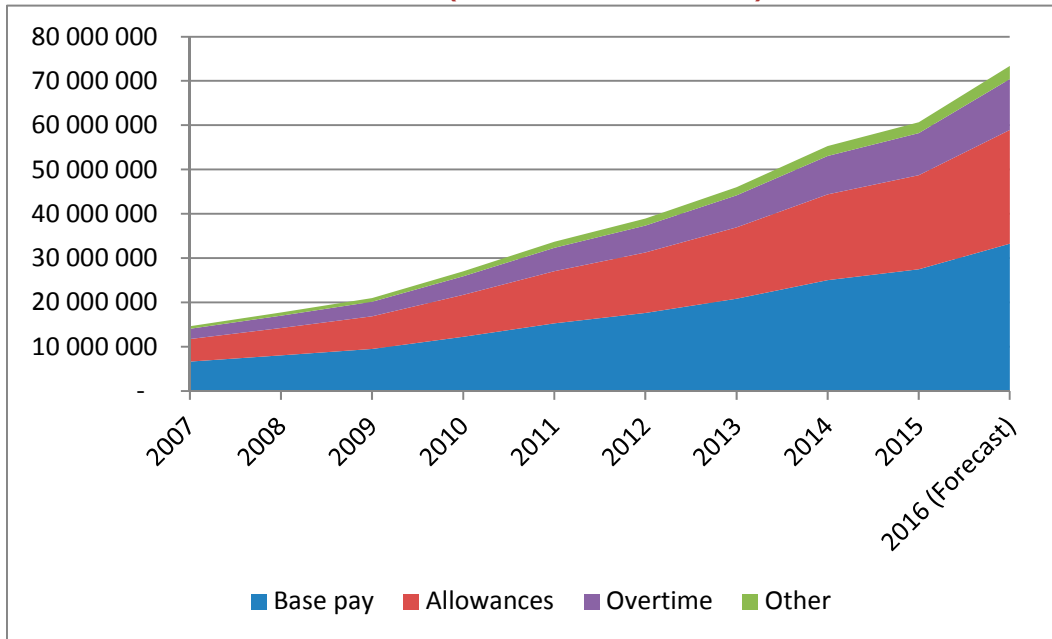
Figure 5. Number of Government Employees²⁷ (2008-2016)



2016: Forecast - Source: IMF Staff, authorities

34. The wage bill structure is remarkably constant over the period 2007-2015. The base-pay ("Vencimento Base") represents 45 percent of the total, allowances and subsidies ("Subsidios") 35 percent, and overtime 16 percent in 2016 with the other years showing the same pattern.

**Figure 6. Evolution of the composition of wage bill (2007-2016)
(Millions of Current MT)**



Source: IMF Staff, authorities (MEF)

²⁷ "Funcionários e Agentes do Estado"

Assessment

35. The wage bill budgeting process is crucial because the staff cost forecast included in the annual budget constitutes an expenditure ceiling that, in theory, cannot be exceeded. The annual budget defines spending limits broken down into different categories. One of them sets “Expenditures for Operation and Investment by Level” (“*Mapa C*”).²⁸ This table, annexed to the annual budget law, defines very precisely the annual aggregated wage bill ceiling, but also binding limits by administration level (central government, provinces, districts, and municipalities).

36. The multiyear planning and budgeting approach should be systematized and strengthened. Medium-term forecasts of the wage bill can improve the predictability and planning of budget outlays, and help the government to understand the medium-term implications of current wage and employment decisions. Figure 2, for instance, shows that for fiscal year 2014 the ceiling set by the MTFF was breached,²⁹ while the limit for fiscal year 2015 was observed. As noted above, the budget limits for fiscal years 2016 and 2017 are likely to be overrun. At the time of the mission the MTFFs for 2016 – 2018 and 2017 - 2019 have still not been published.

37. The method used by DNPO to plan and budget the wage bill needs to be clarified and improved. For instance, the 2016 Budget Bill³⁰ as well as the budget documentation³¹ provides only limited information concerning the assumptions, the drivers, and the metrics used to forecast the wage bill. The only wage bill determinant mentioned in the budget is the number of new civil servants to be hired for the coming year: 13,733 planned in 2016, with an estimated fiscal cost of 1,859 million of MT. Promotions and progressions of 13,700 employees are also budgeted with a global impact of 598 million of MT. These two elements together, however, only amounts to one third of the total increase in the wage bill. There is no information concerning the staff headcount and the increase of wages (for instance, through indexation or *ad hoc* decisions). The 2017 budget documentation³² states that “*fiscal policy will continue to be based on the implementation of measures to rationalize public spending*”, among which the containment of the allowances linked with employee remuneration and the restriction of new staff admissions.

²⁸ For example, the article 2 of the 2016 Fiscal Law of the Republic of Mozambique defines the binding limits and ceiling of the budget as following: “*The limits of the State Budget for the year 2016 are those contained in the following maps (mapa), which are annexed to the budget for the year 2016, take into account the budget classification: A) Map A - Budgetary Equilibrium; B) Map B - Revenues, by Level; C) Map C - Expenditures for Operation and Investment, by Level*”;

²⁹ 2013 and 2014 were year when the authorities were under some pressure, amongst other to absorb employees which had previously been paid by donors and also to absorb the cost of regularizing irregularly employed civil servants.

³⁰ Republica de Moçambique, *Proposta de orçamento do estado para 2016*, December 2015

³¹ Republica de Moçambique, *Fundamentacao do Orcamento 2016 and 2017*.

³² Republica de Moçambique, *Proposta de orçamento do estado para 2017*: September 2016

(continued...)

Nevertheless, the only information about wage bill planning is the announcement of the hiring of 12,915 employees in 2017. This employment expansion has a fiscal impact of 1,782 million of MT and again explains only one third of the wage bill increase.

38. The mission has thus identified two main risks in regards to the method used by DNPO to forecast wage bill.

- The first risk lies in the fact that forecasting is not linked with a crucial determinant, namely the number of employees.³³ The projection is mostly based on financial information delivered by the IT system on past wage bill execution. Without a good knowledge of staff numbers, their breakdown between sectors, categories and ages, and the expected number of employees moving onto pension, wage bill forecasting cannot be precise, and fails to measure the fiscal impact of the natural dynamics resulting from the characteristics of the composition of the public workforce.
- The second risk is related to the decision-making process for determining wage increases. Decisions concerning the annual salary increment occurs a few months after adoption of the budget. DNPO informed the mission that there are discussions every year, concerning the issue of wage increase, between the government and trade unions during the first quarter (*Comissao Consultivo de Salario*). Then the government determines the level of the increase. The decision (*“Despacho ministerial”*) is made by the Minister of Economy and Finance and implemented in general from April.

Recommendations

- Recommendation III.A.1. Systematize and strengthen medium-term forecasting of the wage bill in order to improve predictability and planning of budget outlays (April 2017).
- Recommendation III.A.2. DNPO and relevant stakeholders should carry out an analysis to determine how forecasting of the payroll can be improved utilizing the existing information sources available (e-CAF, e-Folha, e-Sistafe), in particular concerning staff number and HR information needed to streamline and to fine tune the wage bill projection (by end 2017).
- Recommendation III.A.3. The annual decision-making schedule regarding salary increase should be made consistent with the budget calendar, in order to mitigate the risk of discrepancy between budgeting and execution (March 2018).
- Recommendation III.A.4. The section dedicated to wage bill planning in the budget documentation should include information concerning staff headcount (such as statistics broken down by sectors, and administration level; by categories of worker/position; by

³³ Except the annual admission plan which is budgeted in the Fiscal Bill

type of employment: permanent or contractual; full time or part time) and the increase of wage (December 2017).

B. Wage Bill Execution, Control and Reporting

Current Situation

39. Wage bill execution and control have steadily improved following the development and implementation of the e-Folha payroll management system as well as the *Prova da Vida* (Proof of Life) procedure which was carried out in the second half of 2015. The *Prova da Vida* updated the e-CAF register of public employees, including their biometric information. In the absence of a nationwide Human Resource Management system, the e-CAF constitutes the underlying authoritative database on employees in the government sector and is used as a source of verification and validation for the processing of the payroll in e-Folha. The authorities informed the mission that from 2017 the *Prova da Vida* process will be repeated on a regular basis.

40. The legislative framework for wage bill execution and control is comprehensive and clear. Execution and control of the wage bill is regulated by the SISTAFE Law and the SISTAFE Decree³⁴ as well as by the various legal instruments related to the budget execution, including the Financial Administration Manual (*Manual de Administracao Financeira - MAF*)³⁵. Government employment is regulated by the General Statute of State Employees which was turned into Law in 2009 as well by the 2009 Regulation on State Employees³⁶. The control measures put in place to monitor and control the wage bill execution are covered by the above legislation and in addition the Finance Inspectorate (*Inspeccao Geral das Financas – IGF*) and the Court of Accounts (*Tribunal Administrativo – TA*) with their respective legal mandates play a crucial role in the control process. Further, the Ministry of State Administration and the Public Function (*Ministerio da Administracao Estatal e Funcao Publica - MAEFP*) is mandated to develop, oversee and implement overall strategies and policies on human resource management. And finally, each sector in the overall government sector with their sector specific legislative framework is responsible for the management and supervision of government funded employment in the sectors.

³⁴ Lei do SISTAFE, Lei 09/2002 and Decreto do SISTAFE, Decreto 23/2004.

³⁵ Diploma Ministerial no 181/2013, Manual de Administracao Financeira.

³⁶ Lei 14/2009 sobre O Estatuto dos Funcionarios Publicos e Agentes do Estado and Regulamento do Estatuto Geral dos Funacionarios e Agentes do Estado, Decreto 62/2009.

Box 8. Admission and Administration of Public Employees in the Payroll

The hiring of new government employees, their promotion, demotion, transfer, dismissal and retirement involve a number of key stakeholders. The Admission Plan for each sector presented in the budget documentation (*Funadamentacao do Orcamento*) provides the ceilings for the number of new employees that can be hired in each sector.

The annual admission plan guarantees that there is fiscal space to include new employees on the payroll. Each sector is responsible for preparing detailed plans for the admission of new employees and take the initial steps to identify suitable candidates for new positions.

Before the sector can proceed to hire new employees the sector must secure a "Declaration de Cabimento" from the DNCP in the MEF. This declaration ensures that the MEF has approved the admission of new employees on the payroll and that budgetary space is available for the new employees.

The sector must then present the administrative process to the TA in order to secure the "Visto" from the TA. The TA will ensure that all required documents, birth certificate, identity card, professional certificates etc., including the Declaration of Cabimento, is included in the case file. The TA will, granted the documentation is properly prepared, issue the Visto within 40 days. After successful conclusion of these process steps the sector can proceed to the final stages of the recruitment process.

Similar procedures must be followed when government employees are promoted, transferred to other positions etc.

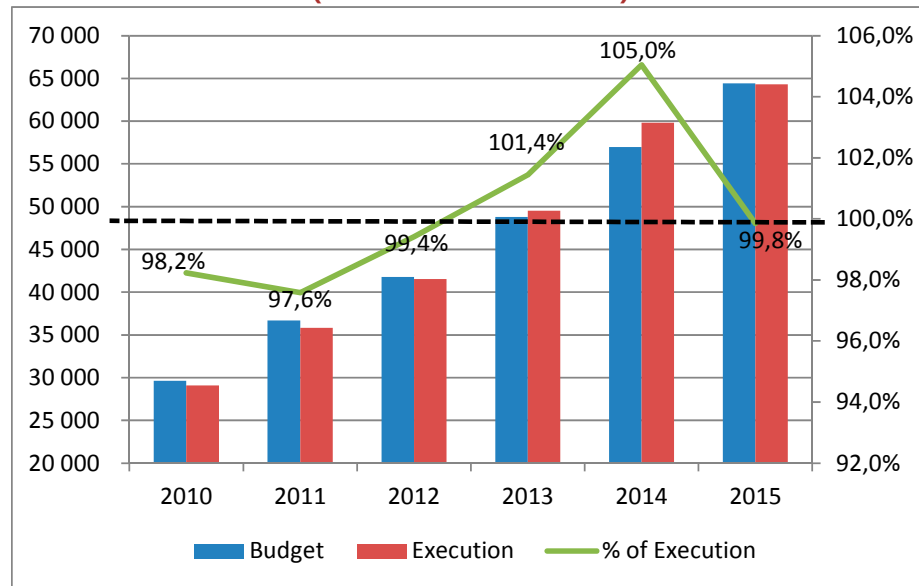
Source: Staff

41. Controls embedded in the monthly calculation and execution of the payroll seem adequate. Sectors are responsible for updating each month all registers regarding their employees as well as maintaining a register of employee presence, illness, holidays, etc. This information is processed into e-Folha and presented to the DNCP. The DNCP then proceeds with its monthly payroll calculations and calculates a first draft of the monthly payroll. This draft is returned to the sector (in e-Folha) for approval. A number of controls are imbedded in these steps. The DNCP has defined a band of variation (5 percent) around the expected/budget payroll value for the sector. If the payroll value comes out above this band the payroll will have to be approved by the Minister of the sector. If this approval is not given, the payroll will be recalculated based on expected values for the given sector and period derived based on data in e-CAF. The payroll will then be scheduled for payment through the budget execution module of e-Sistafe and through a request for payment to DNT. The overall monthly process is monitored and controlled by DNCP to ensure that the defined monthly schedule for payment of wages and other personnel expenditure is carried out in accordance with the Financial Procedures Manual.

42. Part of the payroll is still executed via cash payments as some public employees still do not have a bank account. The mission was informed that part of the payroll execution is carried out as direct cash payment. This is the case in regions where public employees have no access to the banking system and have not been able to open bank accounts. The volume of these transactions is decreasing and – although outside the scope of this mission – also involves pensioners.

43. An ex post review of the wage bill execution compared with wage bill budget shows that the global wage bill ceiling has been generally complied with during the period 2010-2015. In fact, fiscal slippage occurred twice in recent years. In 2013, there was an overrun of 1.6 percent, and in 2014 of 5 percent (Figure 7). For the other years, wage bill execution remained under the annual ceiling approved by the Parliament. In addition to the ceilings established by the budget, additional funds are often added to or transferred between these ceilings by reallocation of appropriations (appropriations to a sector on other expenditure can be reallocated to salary – but not the other way around) or by means of liberating reserved the *cativos*.

**Figure 7. Wage Bill Budget and Execution (2010-2015)
(Millions of Current MT)**



Source: IMF Staff based on OE and CGE data.

44. Reporting on wage bill execution is part of the overall financial reporting made available from the e-Sistafe portfolio of modules. The reporting on the execution of the payroll is included in the overall reporting system. Reporting on specific aspects of the payroll is also available to sector managers, the various stakeholders in the MEF, and the IGF and TA (see below). The payroll execution is included in the rolling issuance of the quarterly budget execution reports (*Relatorio de Execucao Orcamental – REO*) which are published on the MEF website.

45. The IGF and TA, respectively in charge of internal and external audit, have not identified any systemic deficiencies in the payroll control system. The IGF is mandated to carry out inspections of all government entities as part of the system of internal controls and audit. The IGF defines an annual inspection work plan and with regards to the area of payroll the detailed planning and preparation of the inspections is supported by data from e-CAF and e-Folha. The inspections have not revealed systemic issues with regards to the general payroll controls but does indeed identify the payroll as a high risk area in particular related to: (i) over and extra time payments, (ii) payment of allowances, and (iii) the proper registration of public employees in the

e-CAF. With regards to overtime payment and allowances there are examples of request for payments without proper authorization and concerning the registry in e-CAF the problem involves possible fraud with regards to falsification of the TA *Visto*³⁷ which could allow employees to be registered at a higher pay scale or similar. It is noted that the personnel case files are kept at the sectors in paper while copies of the *Visto* are kept with TA making instant reconciliation difficult. The TA carry out financial audits of the payroll following an annual work plan and informed the mission that they have not identified system issues with regards to the control of the payroll. Both IGF and TA have the mandate to recommend cases to the Public Prosecutor for further criminal investigation and have indeed executed this mandate over the years.

46. Since the implementation of the e-CAF in 2007 and the e-Folha in 2009³⁸ the IT underpinning of the management of the Wage Bill has seen steady improvements. The e-Folha will successively replace three legacy systems³⁹ which still manage 2.000 employees, mainly due to outstanding issues regarding some salary tables and career definitions which are in the process of being regularized by DNCP to allow for the transfer of these last employees to e-Folha. Following the Letter of Intent from December 2015, 270,612 government employees received their salary through e-Folha corresponding to 89,3 percent of the employees registered in e-CAF. In 2015, 81,1 percent of the 302,800 civil servants registered in e-CAF had carried out the Proof of Life⁴⁰. A temporary database e-CPAE has been created to handle the transfer of payment data from the various systems to e-Folha and to e-Sistafe. The temporary database has also handled the transition of roughly 7.000 employees to normal terms in e-CAF and e-Folha. E-CAF serves an important role as the authoritative repository to validate a public employee prior to releasing a salary payment but also has some shortcomings, in particular as it maintains no historic data about the individual public employees.

Assessment

47. The process of issuing the *Declaração de Cabimento*⁴¹ by DNCP could benefit from strengthening the analysis of the impact of additional admissions on the wage bill. The mission was informed that the DNPO and DNCP have introduced a measure to control the admittance of new employees. Over the past 3 years, DNPO has introduced specific budget lines covering new hires, promotions and salary increases due to career advancement on the payroll

³⁷ The TA « Visto » is a stamped document providing the authorization from the TA to proceed with the hiring, promotion etc. of civil servants.

³⁸ Balanco da reforma da administracao financeira do estado 2002 – 2014 e perspectivas para 2015 – 2019, MEF, 2015.

³⁹ Sistema Nacional de Vencimentos (SNV) , istema de Pagamento de Salarios (SPS), and Sistema de Pagamento de Vencimentos (SPAV).

⁴⁰ A report detailing the findings and results of the Proof of Life exercise is expected to be issued by the MEF in December 2016.

⁴¹ The *Declaração de Cabimento* is a document issued by the MEF to demonstrate that the request by the sector to hire or promote can be carried out within the existing appropriation.

scale as a way to control the total amount that can be spend on each line. The allocation on each of these lines reflects the amount allocated for these purposes to each organic unit by DNPO following the procedure for forecasting the salary presented above. These budget lines cannot be executed. Instead, as the sectors hire new people, appropriations are reallocated from these lines to the proper payroll budget lines in accordance with the new hires. The issuance of the *Declaração de Cabimento* is based on availability on these lines and a specific forecast of the salary implications of each new hire, promotion etc. calculated in spreadsheets by the DNCP. The DNCP should be equipped with tools to even more precisely calculate the impact on the payroll based on data in e-Folha and e-CAF when hiring or promoting staff before issuing the *Declaração de Cabimento*.

48. The *Declaração de Cabimento* should be issued through the IT system. The hiring of new government employees should be supported by improved tools for forecasting the effect on the payroll. The *Declaração de Cabimento* should be supported by a forecasting tool in the e-Sistafe/e-Folha system so that it comes out as a system issued report. The report should be based on DNCP inputting the number of public employees requested by the specific sector. These data should include the number of civil servants, their categories, and expected payment scale. On that basis, the system should issue a forecast assessing if the impact can be absorbed by the payroll ceiling for that specific sector/province/district. The forecast should be based on a simulation taking into account the existing amount of employees in the sector, the expected exit of pensioners, known data on salary progression and an estimate of the annual salary negotiation in the *Comissão Consultivo de Salario*. Similar report should be issued with regards to promotions and other decision impacting the wage bill.

49. While a new HRM system could replace the largely paper based administrative processes and, in particular, those regarding changes on the payroll, interim measures could improve control of the validity of the *Visto*. MEF and Ministerio da Administração Estatal e Função Pública (MAFFP) have proposed to develop and implement a HR management system which would be used by all stakeholders of the Wage Bill management process. The implementation of such a system would benefit the overall administration and control of the wage bill. For example, the e-CAF does not contain a history of the individual employee. Instead, any new status by an employee at the time of the, for example, *Prova da Vida* is superimposed to the old status without keeping track of the old one. Also, personnel files are still paper-based within the sectors. This makes paper files at risk of fraudulent behavior where paper documents can be tampered with and the TA *Visto* falsified with the objective to for example increase individual salaries. A computerized HRM system would allow maintaining the history of the employee's employment record in the system and would improve the quality and reliability of information by ensuring, for example, that the *Visto* is approved by the TA. In the meantime, the mission recommends that the IGF prior to any inspection mission collaborates with the TA to produce an updated list issued by the TA's "*Sistema de Gestão de Vistos*" of employees and their current status to bring this list on each inspection mission in order to be able to control individual *Vistos* in the personnel files in each institution.

50. MEF should continue to push for the phasing out of the legacy systems in the area of wage bill management. The mission supports the efforts by MEF to phase out the three legacy systems in the area of Wage Bill Management and recommends that 2017 be used to conclude the transition of all employees in the three legacy systems and in the e-CPAE to e-Folha so that the operation of these systems can be terminated.

51. Mobile banking accounts could be an alternative for those public sector employees (or pensioners) who have not opened a bank account in a traditional bank. A (diminishing, but still significant) number of public employees do not have access to the traditional banking system, mainly for geographical reasons. Executing the payroll by means of electronic payments directly to the employee's bank accounts is the preferred execution modality for security and administrative reasons. In relevant areas with absence of access to the banking system MEF could consider if there are viable alternatives to the traditional bank account permitting electronic payments. This could for example be mobile banking accounts or accounts in the Mozambican Postal system.

52. Government employees funded by international development partners under *Investimento* should be included in payroll forecasting and the process of regularizing irregularly employed staff should be brought to a conclusion in 2017. The inclusion of irregularly employed staff into e-Folha under regular terms should be concluded in 2017. Also, any remaining employees funded under *Investimento* should be included in future salary forecasts and a plan for regularizing their employment should be developed.

53. The mission has thus identified one main risks in regards to wage bill budget execution and control.

- Although the system controls in e-Sistafe and e-Folha appear well designed and are supported by a well-conceived legislative framework the actual budget execution forecasts for 2016 and 2017 show a different picture of systematic budget overruns in both years. It has been difficult for the mission to assess whether these expected overruns are due to (i) deliberate under budgeting (the forecast quality has historically shown a reliable ability to forecast the wage bill in the short run), (ii) deactivation or overriding of the controls embedded in the systems and legal procedures, (iii) buildup of arrears from previous years recorded outside the system but being paid in 2016, (iv) changes in the composition of the payroll (larger than foreseen increases in pay and allowances), or (v) decrease in the expected number of staff transiting to retirement or vi) a significant increase of hiring of new staff.

54. The objectives set in the Letter of Intent will only be partially achieved. While MEF has successfully carried out the Proof of Life and further expansion of the use of e-Folha, it appears difficult at this stage to achieve the target of reducing the wage bill by 0.2 % of GDP in 2016 compared to 2015.

Recommendations

- **Recommendation III.B.1.** DNCP should develop and implement improved tools during 2017 to forecast the impact on the payroll following new hires, promotions etc. to allow the *Declaração de Cabimento* to be issued by e-Sistafe and e-Folha.
- **Recommendation III.B.2.** In 2017 IGF in collaboration with the TA should prepare printed lists of employees containing information from the TA system “*Gestao do Visto*” to allow for immediate control during inspection missions of the proper classification of employees in the e-CAF.
- **Recommendation III.B.3.** During 2017, the MEF should push for closing the existing legacy systems in the area of payroll management and ensure that the transition process to e-Folha is concluded.
- **Recommendation III.B.4.** During 2017, all remaining employees under irregular terms should have their terms regularized and staff employed under *Investimento* should be included in future payroll forecasts.
- **Recommendation III.B.5.** During 2017, the MEF should investigate if there are viable alternatives to bank accounts for those employees (and pensioners) that have no access to the traditional banking system for geographical reasons. This could include looking at the utilization of mobile banking accounts.

IV. ENHANCING FISCAL RISK MANAGEMENT AND FISCAL TRANSPARENCY

A. Institutional Arrangements for Fiscal Risks Management

Current Situation

55. Sound institutional arrangements are needed to support an effective and integrated approach to fiscal risk management. While the appropriate institutions depend on Mozambique’s specific factors, a recent IMF staff analysis⁴² based on a review of international experience identified key good practices. Table 5 assesses the current arrangements in Mozambique against these good practices.

⁴² IMF, *Analyzing and Managing Fiscal Risks—Best Practices*, June 2016.

Table 6. Institutional Arrangements for Fiscal Risk Management – Good Practices

Good Practice	Rationale	Current Situation in Mozambique
Establishing and implementing policies for managing and mitigating risks.	Governments should outline the pre-conditions under which they are prepared to take on specific fiscal risks (such as loans, guarantees, PPPs, etc.) and establish policies for mitigating risks	No risk management or mitigation policies have been prepared
Defining clear accountabilities.	Individual departments and line ministries should be responsible and accountable for identifying, estimating, analyzing, and monitoring specific fiscal risks that fall within their functions.	Fiscal risk analysis and related accountabilities are at a very early stage of development
Establish a central risk oversight body.	Centralizing the monitoring and management of overall fiscal risk in a single body allows for an assessment of aggregate risk	Creation of the GGR should lead to the central oversight of risk within the MEF
Establishing central controls over major risks.	The authority to approve policies, decisions, or contracts that expose the government to fiscal risks should be vested in a central authorizing entity, especially when policymakers have taken decisions to cap exposure to particular risks. The decision to take on risk should also be assessed as part of the budget process.	Control of fiscal risk is at a very early stage of development

Source: Staff, based on IMF, "Analyzing and Managing Fiscal Risks—Best Practices", June 2016

56. The MEF has recently established a Risk Management Unit, the *Gabinete de Gestão de Risco (GGR)*. The unit is currently staffed by an Acting Director and six professional employees. The Acting Director of the GGR⁴³ informed the mission that, over the medium-term, the unit's staffing complement could expand to about 20-25 professional staff, together with 4-5 support staff. In addition, the GGR will be supported by a resident advisor from the IMF's Fiscal Affairs Department, financed by Belgium. The advisor is expected to start work early in 2017. As a result of a decision by the MEF's legal directorate, the GGR is currently classified as a unit reporting to the Minister, not as a full directorate of the MEF. In practical terms, however, this decision is unlikely to limit the unit's functions, size, or capability, which is dependent mainly on hiring staff of high professional quality.

57. The current functions of the GGR are considerably broader than analyzing and managing fiscal risks. Under its current legal mandate, the GGR is responsible for three main activities: internal audit, compliance, and risk management. The unit's responsibilities therefore cover risks other than fiscal risks, such as operational risks, and comprise two additional functions: (i) ensuring that the MEF complies with its legal obligations in the areas of planning,

⁴³ Mr. Usman, an Advisor to the Minister of Finance. A full-time Director of the GGR has not yet been appointed.

(continued...)

budgeting, and public finance⁴⁴ and (ii) undertaking internal audits of the MEF's systems and operations. Since the unit was established, however, the amount of work it has devoted to its internal audit and compliance functions has been quite limited. Most of its current resources are deployed on preparing the 2016 version of the MEF's fiscal risk statement (discussed in Section IV.B.). In undertaking this task, the GGR has worked closely with the MEF's Economic and Financial Studies Directorate (DEFF), which currently has greater analytical and technical capacity than the GGR.

Analysis

58. The Minister has taken a personal interest in the establishment of the GGR, which is an attempt to fill a vacuum in the MEF's current organizational structure. The Acting Director of the GGR asked for the mission's advice on how the unit's structure and functions should be organized. The unit would perform an important role in advising the Minister and Permanent Secretary on the assessment and management of risks related to fiscal policy, as well as ensuring that the MEF complies with its legal requirements for good financial management, and with its agreements with the IMF and other international development partners. Many countries have developed within their ministry of finance an active management of risks. The organization of the risk management unit of the French General Directorate of Public finance (DGFIP) is presented in Box 9. No other directorate or unit of the MEF carries out these functions, whose importance is heightened by the challenges facing Mozambique's in managing its public finances. The GGR's position as the central strategic unit in the MEF needs to be affirmed, so that it can play an effective role as a key advisor to the Minister and Permanent Secretary on the assessment and management of risks and related compliance issues (see Figure 8). The Minister has emphasized the need to staff the unit with professionals who are highly experienced and skilled in economics and finance, and this may require the existing staffing complement to be revisited. The unit's capacity in the next two years will be enhanced by the skills and advice of the IMF's long-term resident advisor.

⁴⁴ GGR interprets compliance to mean that the MEF must act consistently with legal decisions of the government and the legislature in all areas of its business, including public finance.

Box 9. Setting Up a Risk Management Unit: The French DGFIP

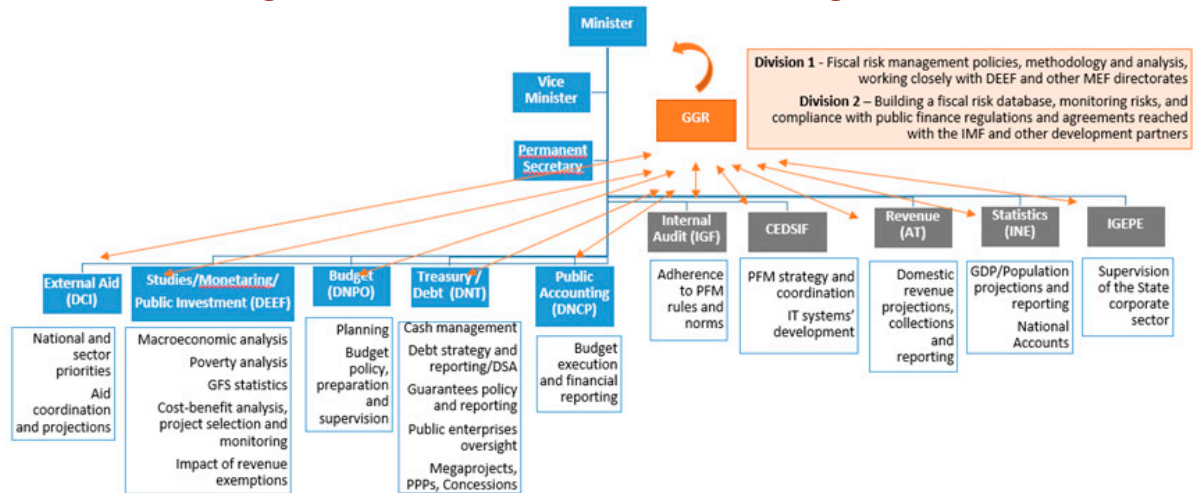
The French General Directorate of Public Finance (DGFIP) missions include the administration and collection of tax revenue, execution of the budget and payments for more than 100,000 public entities, production of the public entities financial statements, and the management of the State's real estate. It comprises about 150,000 staff.

The creation of the Audit and Risks Unit of the DGFIP was part of a strategic approach of risk prevention. The DGFIP face major challenges resulting from the wide diversity of its financial and accounting activities, the sensitivity of its processes and data, and its role in the preparation of certified public accounts. The Unit comprises three divisions:

- The risk management division ensures the effectiveness of internal control. It validates the main tools and provides methodological and pedagogical support to support the implementation of the risk management approach. It prioritizes and plan the measures to mitigate the key risks.
- The internal audit division is independent of the Unit management. It performs risk analysis, ensures the robustness of internal control mechanisms and risk governance. In addition, it undertakes thorough investigations, based on an analysis of risks and objectives, to assess internal control within operational units (including environment control, processes and procedures, and budgeting and accounting). It includes two teams, respectively in charge of national audits and fraud investigations.
- The coordination division comprises two teams in charge of change management and development of IT tools for risk identification and management.

Source: IMF Staff

Figure 8. Position of the GGR in the MEF's Organization



Source: IMF Staff

59. The GGR is likely to face some challenges in building the capacity required to deliver its critically important mandate. One of these challenges is that the functions of macroeconomic and fiscal forecasting, fiscal reporting, and fiscal risk analysis are distributed among several directorates and units within the MEF (DEEF, DNPO, DNT, and GGR). This

fragmentation is sub-optimal⁴⁵ and imposes heavy demands on effective coordination among the units concerned. The GGR will need to build and manage its relationships with these directorates, in order to obtain and exchange information, and work collaboratively in areas such as fiscal risk analysis. Exercising the unit's compliance function will also require strong leadership by the unit, and a sensitive handling of relationships with directorates, in a field that is relatively unfamiliar to the public sector. The compliance function is more normally found in the private sector, especially in banks and other financial institutions, where conformity with legal standards and regulatory norms is of high priority. This function is generally less usual in a ministry of finance but, nevertheless, under challenging fiscal circumstances, it is appropriate that some aspects of this function (e.g., in relation to satisfying the terms and conditions of agreements with international development partners) be exercised by the GGR.

60. The immediate priority of the unit should be to focus on the effective assessment and management of fiscal risks. For this purpose, the GGR could be organized into two divisions, with the broad distribution of responsibilities shown in Table 6. This organizational structure would give primacy to the measurement, control, and management of fiscal risks, while contributing to the development of the GGR's compliance work. The first division would be responsible for undertaking analytical work on fiscal risks, in coordination with DEEF and other directorates of the MEF, and improving the methodology of fiscal risk analysis, in line with international good practices. It would be also in charge of preparing the fiscal risks statement. The second division would be responsible for monitoring the government's compliance with fiscal targets, public finance regulations, and agreements with development partners, including the IMF, as well as establishing a comprehensive database of fiscal risks.

⁴⁵ In many other countries, macro-fiscal departments or units have been established that cover most or all of these functions.

Table 7. Proposed Organization and Functions of the GGR

Division 1: Fiscal Risk Analysis	Division 2. Monitoring and Compliance
Preparation of a draft fiscal risk management policy and risk mitigation strategy, and its periodic update, for publication by the government	Preparation and maintenance of a comprehensive fiscal database, in consultation with relevant MEF directorates
Preparation of a biannual fiscal risk statement, one statement to coincide with the publication of the budget, the other with the medium-term fiscal scenario	Monitoring compliance with the terms and conditions of agreements with international development partners, including the IMF
Provision of advice to the Minister and Permanent Secretary on the government's overall exposure to fiscal risks, and alternative risk mitigation strategies	Coordination of the preparation of macro-economic and fiscal forecasts with the DEEF
Preparation of fiscal sensitivity analysis and fiscal projections using alternative macroeconomic scenarios	Monitoring compliance with laws, regulations, and other decisions by the government relating to fiscal risks and the management of public finances
Development of tools and data to monitor the government's exposure to specific risks, e.g., government guarantees, PPPs, financial sector, social security (INSS), state enterprises, natural disasters, external aid, etc.	Monitoring the implementation of the 2014 Fiscal Transparency Action Plan
Preparation of analysis of specific fiscal risks (e.g., government guarantees, PPPs, financial sector, social security (INSS), state enterprises, local governments, external aid) and dissemination within operational directorates and units	Preparing biannual reports to the Minister and senior management on compliance issues and the monitoring of fiscal risks, with recommendations on any necessary actions required by the MEF
Development of fiscal risk analysis methodology (e.g., long-term scenario planning, management of risks from natural resources) based on good international practices, and dissemination within MEF directorates	Organization of workshops for MEF directorates and line ministries to build understanding of the new framework of assessing and managing fiscal risk, and ensure cooperation in providing relevant data and analysis

Source: IMF Staff

61. Development of internal audit within the MEF should not be given priority in the short term. An internal audit function is found in many ministries of finance around the world, but should be considered as a longer-term development in Mozambique. The location of this function in the GGR is a potential distraction from the more urgent tasks of the unit discussed above. Consideration could be given to establishing internal audit as a separate unit reporting directly to the Minister or Permanent Secretary⁴⁶. The mission considered another option, namely to locate the MEF's internal audit work in the IGF. The IGF, however, is an independent entity that does not report directly to the Minister, and this solution therefore does not seem to be appropriate. In the short- to medium-term, however, until a full-fledged internal audit service has

⁴⁶ This arrangement would be consistent with accepted international standards of internal audit issued by the Institute of Internal Auditors, and with practices in many countries.

been established in the Ministry, the IGF could be asked to provide some internal audit services to the MEF.

Recommendations

- **Recommendation IV.A.1.** Establish the GGR in a strategically prominent position in the MEF's organizational structure, so that the unit can provide effective advice to the Minister and Permanent Secretary on the management and mitigation of fiscal risks, and related compliance issues. (April 2017)
- **Recommendation IV.A.2.** Reorganize the GGR into two divisions, one responsible for fiscal risk analysis, the other for monitoring and compliance with public finance regulations, and agreements with the IMF and other international development partners. Relocate the GGR's internal audit function in a separate unit which reports directly to the Minister or the Permanent Secretary. (April 2017)

B. Fiscal Risks Statement

Current Situation

62. Mozambique's first fiscal risk statement was published in November 2015. This achievement was supported by IMF technical assistance which provided hands-on assistance to finalize the document, working together with several directorates and units of the MEF.

63. FAD mission stressed that further steps would be required to make the FRS more valuable for fiscal decision making. A two-pronged approach was recommended: (i) to improve the information already disclosed, and (ii) to expand the FRS scope to capture a wider range of potential risks. To support the implementation of this approach, FAD prepared a technical note⁴⁷ aiming at improving the structure and content of the statement of fiscal risks, with a specific focus on: (i) the coherence between the statement of fiscal risks and the budget documentation, (ii) the structure and organization of the statement, (iii) the linkages between fiscal forecasts and risks, (iv) the presentation of key risks related to state-owned enterprises, and (v) the disclosure of risks related to natural resource revenues. The main recommendations of this note are summarized in Box 10.

⁴⁷ IMF, FAD, Tim Irwin "Republic of Mozambique - Improving the Statement of Fiscal Risks", September 2016

Box 10. Summary of Recommendations to Improve the FRS

1. Organize the FRS into three main sections: (i) extent of fiscal risk based on the analysis of the differences between previous forecasts of the debt and deficit and their actual outcomes; (ii) main sources of fiscal risk, subdivided into macroeconomic risks and specific risks; and (iii) the government's policies for mitigating risks and increasing the resilience of public finances to shocks.
2. Link the discussion of fiscal risks to the government's current fiscal forecasts.
3. Make the statement a chapter of the government's main forecast documents (*Cenário Fiscal de Médio Prazo* and/or *Proposta de Orçamento do Estado*), not a standalone document.
4. Develop and standardize the analyses of the differences between past forecasts and actual outcomes, and explain the implications of these differences for the uncertainty of current forecasts.
5. Develop the analysis of the risks created by public corporations by disclosing guaranteed and unguaranteed liabilities, assets, leverage, profits, etc.
6. Discuss uncertainties surrounding future revenue from the production of hydrocarbon resources.
7. Make the Minister of Finance or the Council of Ministers the official author of the document, or at least have the document endorsed by the Minister or the Council.
8. Ensure the MEF has the right to obtain any information necessary for preparing the FRS from other public bodies.

Source: Staff, based on IMF, FAD, Tim Irwin "Republic of Mozambique - Improving the Statement of Fiscal Risks", September 2016

64. Despite the recent creation of the GGR, the government was unable to prepare an updated FRS at the time of the submission of the 2017 budget. This situation results from the complexity of the preparation of the 2017 budget, limited capacities to gather and analyze the data, and a lack of integration of the FRS within the overall budget process. In this context, the mission proposed a draft outline for the new FRS (see Annex II) and supported the initial steps of its preparation.

Assessment

65. While the publication of the FRS in 2015 was a major step to improve fiscal transparency, the objective should be to fully integrate the exercise in an effective approach to manage and mitigate fiscal risks. The preparation and publication of a fiscal risk statement has been a key step in improving fiscal transparency. The statement describes many sources of fiscal risk, including the uncertainties surrounding GDP, commodity prices, donor financing, exchange rates, public corporations, and public-private partnerships. It analyzes the accuracy of past forecasts of revenue and expenditure and the uncertainty surrounding current forecasts. It also provides information on the debts of SOEs, a first step in disclosing the fiscal risks arising from these corporations.

66. The FRS should be a key tool to improve the government's understanding of the risks to public finances. It will require to further identify the sources of fiscal risks, as recommended by previous missions. Nevertheless, the main benefit would be to improve the evaluation of the potential magnitude of the various categories of risk, and estimate the probability of their occurrence. As a first step, assessments of the maximum possible risk (for example, the total value of a guarantee) could be used. In the medium-term, more detailed analysis could lead to probabilistic estimates (for example, using historical data to assess the average fiscal impact and occurrence of a natural disaster, or using financial analysis of SOEs to assess the risk of a guarantee being called). In the short-term, risks could also be categorized using a double scale: (i) potential impact: low, medium, high; and (ii) probable occurrence: likely, probable, remote.

67. Based on the fiscal risks assessment, the government should identify relevant mitigation instruments. There are a broad range of tools available to governments, and some good practices in the management of specific fiscal risks are described in Annex III. The choice of instrument should be tailored to the circumstances in Mozambique, and will depend on the nature of the risks, the cost-tradeoff between mitigating and accommodating risks, and institutional capacities.

68. In this context, the timeline of the preparation of the FRS should be fully aligned with the budget calendar. The government's main fiscal forecasts are reported first in the *Cenário Fiscal de Médio Prazo*, which is normally produced in the middle of every year, and then updated and published in September in the annual budget proposal, the *Proposta de Orçamento do Estado*. The statement of fiscal risks could be included as an annex to both documents, implying that the statement would be published twice a year. The FRS annexed to the *Cenário Fiscal de Médio Prazo* could provide a medium-term perspective, while the one annexed to the budget proposal could focus on an assessment of risks during the upcoming budget year.

Recommendations

- **Recommendation IV.B.1.** Synchronize the preparation of the FRS with the budget calendar and publish the next versions of the FRS in 2017 as an annex to both the *Cenário Fiscal de Médio Prazo* and the *Proposta de Orçamento do Estado*. (2017)
- **Recommendation IV.B.2.** Develop a mapping of fiscal risks and assess the probability and the potential impact of these risks. (2017)
- **Recommendation IV.B.3.** Develop a mitigation strategy for the major risks. (2017)

C. Fiscal Transparency Action Plan

Current Situation

69. In November 2013, the Fiscal Transparency Evaluation⁴⁸ (FTE) highlighted “a number of areas in which Mozambique’s fiscal transparency practices could be further improved”. The evaluation found that the implementation of the SISTAFE law and e-SISTAFE had helped Mozambique meet many of the standards set by the IMF’s Fiscal Transparency Code. At the same time, it revealed weaknesses related to the institutional coverage and reliability of fiscal reporting, including very limited disclosure of the financial position of state-owned enterprises (SOEs) or entities such as the INSS. The report also stressed the need to develop the disclosure and management of fiscal risks. The FTE proposed an action plan (FTAP) to enhance fiscal transparency and risk management over the medium term. It included a roadmap to implement a set of recommendations that would materially enhance the information base for fiscal decision-making in Mozambique, and ensure the country meets key international fiscal transparency standards and practices.

70. Progress in clarifying the coverage of the government’s annual financial statements (Government General Accounts, CGE) and improving disclosure of the financial position of SOEs has been limited. The revision of the SISTAFE Law which, among other changes, would align the definition of the public sector with international standards and, as result, extend the institutional coverage of budgetary and financial reporting, did not take place as expected in 2016. In addition, a long-awaited law defining the status of public funds, SOEs, and other autonomous entities, together with arrangements for their financial oversight, is not yet available. A law is to address issues related to the State corporate sector which include SOEs and minority holdings, but its scope does not include public funds and other autonomous entities.

71. No substantial progress has been made on the overhaul of financial reporting. Following FAD advice, the government has modified its initial timetable for introducing full accrual accounting and is now considering this as a long-term target. Nevertheless, no detailed roadmap defining the transition to accrual accounting has been prepared. Further improvements in the quality of information on public assets are on hold, pending the implementation of e-SISTAFE’s State Asset Module (MPE).

Assessment

72. A limited number of the measures included in the FTAP have been absorbed into the MEF’s reform plans. Previous reviews by FAD of the PFM reform strategy conducted in January 2014 and November 2015, respectively, recommended incorporation of the FTAP into the government’s PFM reform agenda. This proposal would ensure full complementarity of the FTAP with the overall reform agenda and help coordinate the internal operations of MEF directorates and external support to prioritize and sequence the actions. As discussed in Section I of this report, the MEF’s draft *Strategic Plan for Public Finance* includes some aspects of the FTAP but the coverage is incomplete. For instance, the *Strategic Plan* could put more emphasis on the

⁴⁸ “*Republic of Mozambique - Fiscal Transparency Evaluation*”, Xavier Rame, Iyabo Masha, Delphine Moretti, Esther Palacio, Dalmo Palmeira, Juana Arstizabal, and Sefa Pamukuz, IMF, December 2014.

need to develop a public sector wide approach to public finances, given that some of the key fiscal risks identified in the FTE, such as risks related to government guarantees, have materialized.

73. An updated and approved FTAP should support the implementation of the *Strategic Plan*. While this *Plan* focuses on strategic outcomes, an updated FTAP would provide a clear timeline for key underlying reforms that are required to achieve these outcomes. As the FTAP also proposes a five-year timeline for implementation of the various actions, it could be easily synchronized with the *Strategic Plan*, and an update of the FTAP included as an annex of the *Plan*.

74. As most of the FTE's findings remain fully valid, a decision by the government to update and approve the FTAP would send a clear signal to stakeholders about the country's commitment to improve fiscal transparency. The update of the FTAP should be developed through collaboration with the development partners, who could support its implementation. FAD could provide operational support to finalize this update.

Recommendations

- **Recommendation IV.C.1.** Update and approve the FTAP and annex it to the *Strategic Plan for Public Finance*. (2017)

Annex I. Strategic Plan for Public Finance - Key Objectives, Actions and Performance Indicators and Targets

Strategic Objective	Strategic Actions	Key Performance Indicators	Baseline	Targets					Responsible Directorate
			2015	2016	2017	2018	2019		
A. Stimulate Savings and Private Investment	A1. Promote and attract Investment to Mozambique	Volume of new investment (USD millions)	1.8	1	2	3	5	DEEF	
	A2. Contribute to development of the private sector	Number of new business enterprises created	315	500	650	800	1000	DEEF	
B. Increase the collection of the State's revenue	B1. Improve tax collection mechanism								
	B2. Strengthen the mechanisms of intelligence, investigation, oversight and tax audit								
C. Ensure an effective allocation of resources	C1. Ensure good and timely macro-fiscal projections								
	C2. Improve public investment selection and monitoring								
D. Improve the efficiency of budget execution	D1. Improve Public Procurement Processes								
	D2. Improve cash management								
	D3. Consolidate TSA coverage								
	D4. Improve the scope, quality and timeliness of budget execution and financial reports								
	D5. Improve the planning and budget credibility								

E. Improve the management of public assets	E.1. Register the main state assets							
	E2. Manage assets in natural resources							
F. Strengthen the management and oversight of the public sector	F1. Restructure public debt							
	F2. Improve the management and supervision of the public sector							
	F3. Mitigation measures to protect against fiscal risks							
	F4. Reform State pensions and social security							
G. Improve transparency and governance	G1. Increase the effectiveness of the audit and control function							
	G2. Improve access to public finance information							

Annex II. Fiscal Risk Statement – Draft Outline

Section 1. Introduction and Background (1/2 page)

Concept and definition of fiscal risk.

How this FRS compares to the November 2015 FRS and what are the key risks that materialized in 2016.

Main sources of data for FRS.

Section 2. Magnitude of Fiscal Risks (1-2 page)

Summary presentation of main findings and results from Section 3.

Brief discussion of the magnitude of uncertainty facing future fiscal prospects, including the deficit and debt, also aggregate government revenues and expenditures.

Summary table of main fiscal risks.

Section 3. Main Sources of Fiscal Risk (6-7 pages)

Two subsections:

- **Macroeconomic risks –**
 - Risks arising from changes in GDP, using sensitivity analysis. Could also refer to IMF's debt sustainability analysis.
 - Analysis of past forecast errors using standardized tables for GDP, inflation, debt, deficit, total revenues, total expenditure. Tables could cover the period (say) 2008 to 2015, showing the size of the forecast errors each years, and the average error.
 - The implications of each analysis for the understanding of fiscal risks could be explained in a sentence or two.
- **Special risks –**
 - Risks arising from factors such as natural disasters, SOEs, PPPs, VAT arrears, actual or pending law suits.
 - Summary data could be presented for each of these areas of risk – one table for each area.
 - Uncertainties about the expected revenues for exploitation on natural gas reserves and other natural resources (e.g., coal), with a summary table on the main risks.

Section 4. Government Policies for Mitigating Risks (1-2 pages)

A discussion of government policies for mitigating risks, e.g., limiting borrowing for public corporations, building in buffers in the budget to accommodate specific risks, increasing the resilience of public finances to shocks by bringing down debt or extending its average maturity. implementation of the mitigation measure identified in the 2016 FRS.

Annexes

These annexes could include more detailed information on specific risks, e.g.,

- List of PPPs, active and planned, with data on:
 - the type of PPP
 - time of contract signature, and expected duration of the contract
 - value of the assets and liabilities
 - any guarantees provided by the government, etc.
- List of SOEs, with information on:
 - legal form
 - extent and nature of government ownership
 - total liabilities (including debt), and total assets
 - revenues, expenses and profits
 - dividends and any other payments
 - subsidies, capital injections, and any other payment made by the government
 - public service obligations, and other quasi-fiscal activities.
- Uncertainties surrounding revenues from exploitation of natural gas reserves and other natural resources, including information on:
 - Main sources of government revenue related to natural gas, e.g., royalties and profit-sharing, coal and other natural resources
 - Government's baseline forecast for revenues and the main assumptions
 - Sensitivity analysis showing how revenues would differ if assumptions on price and volume of gas and other natural resources were different.
- Full list of government guarantees to SOEs, subnational governments, and other entities.
- List of significant law suits to which the government is a party.

Annex III. Fiscal Risk Management Toolkit

Risk	1. Identify & Quantify	2. Mitigate			3. Provision			4. Accommodate
		Direct Controls	Indirect tools (regulation and charges)	Risk Transfer Instruments	Expense	Contingencies	Buffer funds	
Financial sector	Quantify contingent exposures Monitor financial soundness and risk indicators Incorporate financial sector stress tests into debt sustainability analysis	Reduce state participation in banks	Increase bank loss absorbing capacity (capital adequacy standards) Macroprudential tools to reduce procyclicality Reduce debt bias in tax system	Require banks to fund deposit insurance schemes Resolution mechanisms (e.g. Living wills)	Appropriate expected payments	Maintain cash buffers	Pre-fund deposit guarantee schemes	Fiscal headroom for residual risks
Natural disasters and environmental risks	Early warning systems	Planning to reduce footprint in risky areas	Tax premia in high risk areas Environmental standards Building codes Disaster preparedness strategies	Reinsurance Catastrophe bonds Cap payouts and require deductibles for govt. schemes Mandate insurance in high risk areas	Appropriate expended payments	Disaster contingency	Natural disaster funds	
Macro shock: e.g. Commodity Prices	Sensitivity analysis, alternative scenarios, probabilistic fan charts	privatization of commodity producers	Commodity market regulation Tax base diversification	Hedging instruments (options, commodity futures)	Resource-based fiscal rules	Prudent price assumptions	Stabilization funds	

Risk	1. Identify & Quantify	2. Mitigate			3. Provision			4. Accommodate
		Direct Controls	Indirect tools (regulation and charges)	Risk Transfer Instruments	Expense	Contingencies	Buffer funds	
Guarantees	Maintain a central registry of guarantees and assess risks of at time of issue and over their life	Central authorizing entity Ceilings on liabilities Standard criteria for issuing Conditions on access	Charge risk-related fees	Partial guarantees Require collateral Reinsure if feasible	Appropriate expected cash flows	Provision for expected calls	Guarantee funds	
Public Private Partnership	Maintain central registry of PPP commitments Subject projects to sensitivity analysis	Central authorizing entity Ministry of Finance gatekeeper role Ceilings on PPP commitments	CBA and value for money checks Charge guarantee fees	Risk sharing allocation framework Cap payments linked to demand Insure retained contract risks where feasible	Appropriate expected cash flows	Provision for expected calls on guarantees	Guarantee funds	
State Owned Enterprises	Quantify explicit exposures Monitor financial performance Scenario analysis or stress testing	Reduce size of the SOE sector	old boards accountable for performance Reporting requirements	Explicit no-bail-out clauses	Appropriate expected subsidies and QFAs	Provision for cost in case of restructuring	-	

Risk	1. Identify & Quantify	2. Mitigate			3. Provision			4. Accommodate
		Direct Controls	Indirect tools (regulation and charges)	Risk Transfer Instruments	Expense	Contingencies	Buffer funds	
Subnational government	Monitor financial performance against benchmarks	Fiscal rules and limits on borrowing	Link degree of financial autonomy to performance Reporting requirements	Establish credible no-bail out clauses Retain authority to liquidate assets / appoint administrator	Appropriate expected support		Rainy day funds	

Source: IMF, "Analyzing and Managing Fiscal Risks—Best Practices", June 2016

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