



REPUBLIC OF MOZAMBIQUE

TECHNICAL ASSISTANCE REPORT ON GOVERNMENT FINANCE STATISTICS MISSION (APRIL 18-29, 2016)

January 2023

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REPUBLIC OF MOZAMBIQUE

TECHNICAL ASSISTANCE REPORT ON IMPROVING FISCAL REPORTING AND GOVERNMENT FINANCE STATISTICS

(April 18–29, 2016)

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August 2016

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ACRONYMS

BM	Bank of Mozambique
CEDSIF	Center for Development of Financial Information Systems
<i>CGE</i>	Government annual report (<i>Conta Geral do Estado</i>)
CS-DRMS	Commonwealth Secretariat Debt Recording and Management System
CUT/TSA	Treasury single account (<i>Conta Única do tesouro</i>)
DNCP	National Government Accounting Directorate
DNO	National Directorate of Budget
DNT	National Treasury Directorate
e-SISTAFE	IT Government Financial Administration System
EMATUM	Tuna Mozambican Company (<i>Empresa Moçambicana de Atum</i>)
<i>GFSM 1986</i>	<i>Government Finance Statistics Manual 1986</i>
<i>GFSM 2014</i>	<i>Government Finance Statistics Manual 2014</i>
MEFP	Memorandum of Economic and Financial Policies
MT	Mozambican metical
NCG	Net Credit to the Central Government
REO	Budget execution report (<i>Relatório de Execução Orçamentaria</i>)
SOE	State-owned enterprise
T-bills	Treasury bills
T-bonds	Treasury bonds
TMU	Technical Memorandum of Understanding
VAT	Value-added tax

EXECUTIVE SUMMARY

A technical assistance mission, jointly organized by the IMF's Statistics Department and the AFRITAC South Regional Technical Assistance Center (AFS) visited Maputo, Mozambique during April 18–29, 2016. It was led by Ms. Mariana Sabatés (IMF's Statistics Department expert) and composed of Ms. Merle Wilkinson and Mr. Fernando de Almeida (IMF's Fiscal Affairs Department experts). The mission's statistics component was part of the government finance statistics module of the United Kingdom's Department for International Development-funded Enhanced Data Dissemination Initiative 2 project.

The main objectives of the mission were to: (i) identify the key discrepancies between data on the operations of government and financing of the central government, including net credit of the banking sector; (ii) assess the origins of the discrepancies; (iii) propose a set of actions and tools to foster the consistency of fiscal reporting; and (iv) assess the current state of compiled fiscal statistics using the *Government Finance Statistics Manual 2014 (GFSM 2014)* framework.

Main findings and recommendations are as follows:

The Mapa Fiscal report is one of the main fiscal reports that the authorities provide to the IMF according to the Technical Memorandum of Understanding (TMU).¹ It is therefore very important to ensure accuracy of the report and appropriate recording of specific transactions.

Various entities are involved in the preparation of the *Mapa Fiscal*. The National Government Accounting Directorate (DNCP) is currently accountable for the overall process but needs support from the National Directorate of Budget (DNO) and the National Treasury Directorate (DNT), as they produce a part of the source data. Similarly, various systems are used to generate the source data. This lack of an integrated system for the source data has led to discrepancies that were identified by the mission. The problem was further aggravated by the lack of regular full reconciliations of the data.

The majority of the business operations are executed through the treasury single account (CUT/TSA), but about 30 percent are still executed outside, through accounts open at the Bank of Mozambique (BM) or through commercial bank accounts. Regular bank reconciliation is crucial to ensuring accurate and comprehensive fiscal reporting.

There has been very limited progress on compiling fiscal statistics in accordance with the *GFSM 2014*. Progress was hampered by the frequent changes of the responsible team and because the lack of a formal agreement among source data compilers for the timely delivery of the data. Therefore, most of the time, the gathering of information depends on the goodwill of the different parties involved.

¹ TMU, paragraph 24, December 2, 2015.

Consider amending the *Mapa Fiscal* 2015 based on the suggested amendments as in Table 21, and start calculating the ‘net internal financing’ line based on the government’s own fiscal data and introduce a formal reconciliation between the *Mapa Fiscal* and the net credit to government figure calculated by the BM.

Consider recording outstanding value-added tax (VAT) refund claims as debt obligations as of end-2015.

Regarding preparation of *Mapa Fiscal* and the reconciliation of financial data: Consider the creation of a technical committee involving the DNCP, DNT, DNO, to discuss problems faced during the ongoing process and address discrepancies that could not have been solved otherwise.

Develop a guidance document (or reference paper) which presents in a concrete way, the main features of the *Mapa Fiscal*'s production process.

Implement a system of supervision (quality assurance) to ensure reliability of the *Mapa Fiscal* data, including an effective reconciliation of the overall position of the CUT between the DNT and the BM.

Consider more intensive use of e-SISTAFE, including data available in other systems.

Regarding the use of the *GFSM 2014* framework: Design a formal agreement between the people in charge of the compilation and the data providers that establishes the form, frequency, and delay of the fiscal information that should be sent. It is necessary that this agreement be validated by the corresponding authorities to ensure its implementation.

Centralize the request for information mainly with the DNCP, in order to achieve internal consistency in the data until the formal agreement becomes established.

Reconcile data compiled with the information of flows included in the *Mapa Fiscal*, and also with Chart 2 of the budget execution report (Relatório de Execução Orçamentaria, REO) and Chart 7 of the government’s annual report (Conta Geral do Estado, CGE).

I. INTRODUCTION

1. A technical assistance mission, jointly organized by the IMF's Statistics Department and the AFRITAC South Regional Technical Assistance Center (AFS) visited Maputo, Mozambique during April 18–29, 2016. It was led by Ms. Mariana Sabatés (IMF's Statistics Department expert) and composed of Ms. Merle Wilkinson and Mr. Fernando de Almeida (IMF's Fiscal Affairs Department experts). Its statistics component was part of the government finance statistics module of the United Kingdom's Department for International Development-funded Enhanced Data Dissemination Initiative 2 project.
2. The mission met with the Permanent Secretary of the Ministry of Economy and Finance, the General Directors of the Treasury, Public Accounting, the Center for Development of Financial Information Systems (CEDSIF), the National Directorate of Economic and Financial Studies, and staff of the Bank of Mozambique (BM). For the complete list of officials, see Appendix I.
3. The mission would like to thank the Mozambican authorities for their cooperation and hospitality and for facilitating open and constructive discussions. Also, for her support of the mission, we would like to thank Ms. Esther Palacio, IMF's Technical Assistance Coordinator in Mozambique.

A. Mission Objectives and Tasks

4. The main objectives of the mission were to: (1) identify the key discrepancies between data on the operations of government and financing of the central government, including net credit of the banking sector; (2) assess the origins of the discrepancies; and (3) propose a set of actions and tools to foster the consistency of fiscal reporting. The mission also assessed the current state of compiling fiscal statistics using the *Government Finance Statistics Manual 2014 (GFSM 2014)* framework.

B. Structure of the Report

5. The remainder of this report consists of three sections. In the first section (section II), the problems and the proposed solution for the consistency of the Mapa Fiscal are presented; the second section (section III) presents issues related to the process and reconciliation issues as well as management of cash; and the last section (section IV) describes progress with the migration of fiscal statistics into the *Government Finance Statistics Manual 2014 (GFSM 2014)* framework.
6. The Appendices to the report display Appendix I as a list of the officials met during the mission; in Appendix II as the Methodological Guide for the Development of the Mapa Fiscal; Appendix III as the fiscal statistics sources of data and in Appendix IV, restructure of the data of the *Mapa Fiscal* using the *GFSM 2014* framework.

II. POSSIBLE ADJUSTMENTS TO THE *MAPA FISCAL 2015*

7. The *Mapa Fiscal* is one of the main fiscal reports that the authorities provide to the IMF according to the Technical Memorandum of Understanding (TMU).² The two main challenges in compiling the *Mapa Fiscal* are the following: (i) ensuring accuracy of the report; and (ii) recording specific transactions appropriately. This section deals with issues related to the *Mapa Fiscal 2015*,³ while suggestions to strengthen the compilation process are discussed in Section III.

8. **The *Mapa Fiscal 2015* is prepared based on the *Government Finance Statistics Manual 1986 (GFSM 1986)*.** All suggested adjustments in this section are made in the context of the *GFSM 1986*. The most up-to-date statistics manual is *GFSM 2014* and, where noteworthy, differences in the treatment of items between *GFSM 1986* and *GFSM 2014* are highlighted.

9. **The *Net internal financing line in the Mapa Fiscal* is equal to the net credit to the central government (NCG) figure that is calculated by the Bank of Mozambique (BM) according to the definition, coverage, and adjustments agreed in the TMU.**⁴ The NCG from the banking system is defined as the difference between the outstanding amount of bank credits to the central government and the central government's deposits within the banking system. The change in the NCG from the banking system is relative to the NCG as at the end of December of the previous year.

10. **A change in the basis for recording value-added tax (VAT) refunds relating to claims in respect of 2015 and later years has been made based on IMF advice.**⁵ From 2015, VAT receipts have been accounted for on a net basis, for example, the amount of revenue recorded equals gross VAT receipts for 2015 and less VAT refund claims in respect of 2015, net of rejections.⁶ Any VAT refunds paid relating to 2014 and previous years, whether those funded by the securitization⁷ or in respect of claims that have arisen in 2015, have been recorded as a liability that does not affect the current year's budget revenue and expenditure. Accordingly, the government securities issued to companies with VAT refund claims—the “VAT securitization” in April 2015—are not recorded within revenue and expenditure (“above-the-line”) in the *Mapa Fiscal 2015*. The size of the VAT securitization issue was Mozambican metical (Mt) 8,171 million and the securities are listed on the Stock

² TMU, paragraph 24, December 2, 2015.

³ The mission worked with a version of *Mapa Fiscal* dated April 19, 2016.

⁴ TMU paragraphs 2–4 and 20, December 2, 2015.

⁵ “Strengthening Fiscal Institutions in Mozambique”, IMF’s Fiscal Affairs Department, November 2015.

⁶ Memorandum of Economic and Financial Policies (MEFP), paragraph 23, December 2, 2015.

⁷ The government paid VAT refund arrears of Mt8,171 million that had accumulated up to end of 2014, by ‘securitizing’ the debt through a placement of government bonds to the companies in April 2015.

Exchange of Mozambique. As of end-2015, commercial banks had bought Mt5,949 million of the issue in the secondary market and this amount has been included in the NCG by the BM.

11. **Four key issues should be addressed to finalize the *Mapa Fiscal* 2015:**

- Extrabudgetary expenditure and net on-lending operations incurred in 2015;
- Recording of net VAT revenue, including the impact of cash VAT refunds;
- Recording of leasing transactions; and
- Reconciliation of stocks and flows reported in the *Mapa Fiscal* and the NCG reported by the BM (including issues created by the VAT securitization).

12. **These four issues have an impact on the *Other Operations* line and the *Other Income/Expenditure* lines in the *Mapa Fiscal* 2015.** The *Other Operations* line is reported “below-the-line” (i.e., as part of financing) and currently comprises five entries, amounting to Mt14,384 million (Table 1). The *Other Expenditure (+)/Revenue (-)* line is reported “above-the-line” (i.e., as part of the operations of government) and amounts to Mt852 million (or around 0.4 percent of total expenditure plus net lending). This amount is derived as a residual item so that the *Mapa Fiscal* is balanced, representing revenue or expenditure flows that are not identified and not supported by administrative records of any actual transactions.

Table 1. Mozambique: *Other Operations* in *Mapa Fiscal* 2015

	<i>Other Operations</i> (below-the-line)	<i>In millions of Mozambican meticals</i>
1.	VAT securitization	5 949
2.	Fuel subsidy payment to companies financed by commercial loan	3 800
3.	Leasing for public buildings	4 128
4.	VAT refund payments postponed to 2016	-765
5.	Payment of commercial debt of the Tuna Mozambican Company (EMATUM)	1 272
6.	Total of other operations	14 384

Source: National Government Accounting Directorate (DNCP).

A. Recording of Specific Extrabudgetary Operations

13. **In 2015, two large extrabudgetary transactions triggered actual cash payments:** (i) a subsidy payment of Mt3,800 million to fuel companies that were financed by a commercial loan; and (ii) a guarantee payment to the Tuna Mozambican Company (*Empresa Moçambicana de Atum*) (EMATUM) bondholders. As these transactions were not included in the 2015 budget, the authorities recorded the whole subsidy payment and part of the guarantee payment as *Other Operations*, falling ‘below-the-line’ (Table 1, Rows 2 and 5).

14. **The rationale for recording the guarantee payment partly within *Other Operations* and partly elsewhere in the *Mapa Fiscal* is unclear.** Table 2 presents the

Schedule of debt service payments to Credit Suisse⁸ in respect of the EMATUM liabilities⁹ in 2015. Table 3 presents the reconciliation of external debt payments in 2015 between the information provided by the National Treasury Directorate (DNT) and the *Mapa Fiscal* 2015, identifying a difference of Mt532 million (Table 3, Row 9). Mission analysis revealed that, of the total guarantee payment to the EMATUM bondholders of Mt1,805 million, an amount of Mt1,272 million (Table 1; Row 5) had been adjusted out of the *External debt interest* ('above-the-line') and *Amortization of external debt* ('below-the-line') lines in the *Mapa Fiscal* into *Other Operations* ('below-the-line'). The difference of Mt532 million remained within *Amortization of external debt* (Mt394 million) and *External debt interest* (Mt138 million) (Table 3, Row 9). Suggested adjustments to the *External debt interest* and *Amortization of external debt* in order to give a consistent presentation of the guarantee payment are presented in Table 4.

Table 2. Mozambique: Schedule of Debt Service Payments to Credit Suisse in Respect of EMATUM Liabilities in 2015

Date	Description	Repayment	Interest	Total
March 2015	'Non-commercial part' of EMATUM liabilities	-	398	398
September 2015	'Non-commercial part' of EMATUM liabilities	1 753	614	2 367
September 2015	Guarantee call on 'commercial part' of EMATUM liabilities	1 337	468	1 805
	Total payments to Credit Suisse (Table 3, Row 3)	3 090	1 480	4 570

Source: DNT.

⁸ Debt obligations of EMATUM were arranged by Credit Suisse.

⁹ The government guaranteed the US\$850 million bond issued in 2013 by the state-owned enterprise (SOE) EMATUM. This borrowing financed the purchase of tuna fishing boats and maritime security equipment. Subsequently, US\$500 million out of the total US\$850 million was incorporated into the budget and became public debt under the responsibility of the treasury ('non-commercial part'). The remaining amount (US\$350 million) remains on EMATUM's balance sheet ('commercial part') (IMF Staff Report for the 2015 Article IV Consultation, December 3, 2015.)

Table 3. Mozambique: Reconciliation of External Debt Service in 2015 to *Mapa Fiscal 2015*

	Creditor <i>(millions of Mozambican meticaís)</i>	Repayment	Interest	Total
External debt service in 2015				
1.	Multilateral	2 098	1 091	3 189
2.	Bilateral (excl. Credit Suisse)	1 842	1 784	3 626
3.	Total payments to Credit Suisse (incl. debt service payments on a call on guarantee)	3 090	1 480	4 570
4.	Total external debt service payments including guarantee payments	7 030	4 355	11 385
5.	Less guarantee payment on 'commercial part' of EMATUM liabilities (Table 2)	-1 337	-468	-1 805
6.	Total external debt service excluding guarantee payments	5 693	3 887	9 580
7.	Reconciliation of external debt service with <i>Mapa Fiscal 2015</i>			
8.	<i>Mapa Fiscal 2015</i>	6 087	4 025	10 112
9.	Difference (Row 6 less Row 8)	-394	-138	-532

Source: DNT (Rows 1–4); DNCP (Row 8); IMF mission calculations.

Table 4. Mozambique: Suggested Adjustments to External Debt Interest and Amortization of External Debt

	Amount <i>(millions of Mozambican meticaís)</i>	Suggested adjustment	Comment, explanation
External debt interest	-138	An adjustment from External debt interest (-138) to Other Operations (+138)	To give consistent treatment of all the EMATUM guarantee-related payments.
Amortization of external debt	-394	An adjustment from Amortization of external debt (-394) to Other Operations (+394)	

15. According to the *GFSM 1986*, the government's guarantee payment should be recorded as an on-lending transaction ('above-the-line') in the *Mapa Fiscal* rather than within *Other Operations* ('below-the-line'). In September 2015, the government paid a total of Mt1,805 million as interest and repayment of principal to the EMATUM bondholders after a call on the government's guarantee of the so-called 'commercial part' of the EMATUM liabilities. According to *GFSM 1986*, any government payment, as guarantor or surety, of interest or amortization on the defaulted debts of others is classified as lending ('above-the-line'), since it gives rise to an equivalent government claim against the defaulting debtor. Government receipts constituting recoveries on the consequent claims against defaulting debtors are classified as repayment of government lending.¹⁰ When government payment to

¹⁰ *GFSM 1986*, Chapter 4: Classification, Section V. Lending Minus Repayments, page 185.

third parties of interest or amortization on debt of others generates no corresponding government claim against the debtor, it is classified as a transfer ('above-the-line').¹¹ However, in the *Mapa Fiscal 2015*, payment of the commercial part of the EMATUM's liabilities have been recorded in the *Other operations* line ('below-the-line'), apparently because the guarantee payment was not foreseen and budgeted for 2015. Table 5 summarizes the suggested treatment of the EMATUM guarantee payment.

Table 5. Mozambique: Suggested Treatment for the Guarantee Payment Reported as *Other Operations*

	Amount (millions of Mozambican meticaís)	Suggested amendment	Comment/Explanation
The EMATUM guarantee payment	1 805	Adjustment from Other Operations (-1 805) to an increase in Net lending (+1 805)	Debt service payments on behalf of the EMATUM to bondholders made after the call on the government's guarantee was reclassified as an increase in on-lending, according to the <i>GFSM 1986</i> .

16. **The classification of the guarantee payment may be different under *GFSM 2014*.** According to *GFSM 2014*, the statistical treatment of the assumption of debt, including payments when a guarantee is called, depends on (i) whether the government as a debtor acquires an effective financial claim against the original debtor; and (ii) if there is no effective financial claim, the relationship between the government as a debtor and the original debtor, and whether the original debtor is bankrupt or no longer a going concern.¹² The mission did not analyze the appropriate *GFSM 2014* classification, which would turn on an assessment of the EMATUM's long-term financial prospects and could result in the guarantee payment being classified as a capital transfer (above-the-line) rather than as on-lending (below-the-line in *GFSM 2014* but above-the-line in *GFSM 1986*).

17. **The fuel subsidy paid to companies should be recorded as a subsidy ('above-the-line') in the *Mapa Fiscal 2015* rather than within *Other Operations* ('below-the-line').** The authorities recorded the fuel subsidy payment of Mt3,800 million in the *Other Operations* line ('below-the-line'), as it was not included in the budget. The loan of Mt3,800 million to finance the fuel subsidy payment is recorded as part of the internal debt stock for 2015. Regardless of whether the payment of an expense item was budgeted or not, it should be treated as a 2015 'above-the-line' expenditure item. Table 6 details how payment for the fuel subsidy should be treated.

¹¹ *GFSM 1986*, Chapter 3: Analytical Framework, Section III.E. Lending Minus Repayments, page 105.

¹² *GFSM 2014*, A3.26–29.

Table 6. Mozambique: Suggested Treatment for Fuel Subsidy Expenditure Reported as *Other Operations*

	Amount <i>(In millions of Mozambican meticaís)</i>	Suggested Amendment	Comment/Explanation
Fuel subsidy to companies	3 800	Reduce Other Operations (-3 800) and increase Subsidies (+3 800)	Fuel subsidy reclassified to subsidies as it represents a 2015 expense.

18. **Going forward, it would be useful for the authorities to clarify their approach, should further material extrabudgetary expenditures arise in future years.** By its nature, a call on a guarantee is difficult to foresee and budget for. Equally, the fuel subsidy payment also fell outside the budget in 2015. However, whether an item is budgeted or not is less relevant than the year in which the actual payment arose. It is important for policy formulation and performance analysis to classify expenditures correctly, rather than show unbudgeted expenditure ‘below-the-line’; the correct way would be to show the expenditure ‘above-the-line’ but with an explanation added giving the reason for deviating from the budgeted amount.

B. Recording Net VAT Income

19. **It may be appropriate to revise the calculation of VAT refund claims included in net VAT revenue.** VAT refund claims included in net VAT revenue in the *Mapa Fiscal* 2015 amounted to Mt6,455 million, of which Mt524 million were rejected (Table 7). This represented the total amount of VAT refund claims submitted to the Tax Authority in 2015, but excluding VAT refund claims in respect of 2014 and earlier years. According to the Memorandum of Economic and Financial Policies (MEFP),¹³ claims that have been rejected should be excluded from the amount of VAT refund claims in the *Mapa Fiscal* (Table 8). It should be noted that this approach for recording of net VAT revenue specified in the MEFP differs from the standard statistical treatment for cash-based accounting, whereby the amount of VAT refunds to be netted against VAT receipts is the amount of cash paid out as VAT refunds.

¹³ MEFP, paragraph 23, December 2, 2015.

Table 7. Mozambique: VAT Refund Claims for 2015

Amount <i>(In millions of Mozambican meticais)</i>	
6 455	Total of submitted VAT refund claims related to 2015
-524	Irregularities, rejected and canceled (<i>Irregularidades, Indeferidos, Anulados</i>)
5 931	Total of VAT refund claims for 2015 for the net VAT revenue in <i>Mapa Fiscal</i>

Source: Tax Authority.

Table 8. Mozambique: Suggested Adjustment to VAT Refund Claims

	Amount <i>(In millions of Mozambican meticais)</i>	Suggested Amendment		Comment/Explanation
VAT refund claims of 6455 million	-524	Adjustment to Other Expenditure/Revenue (+524) from VAT refund claims (-524)		Rejected VAT refund claims adjusted out of VAT refund claims as per the MEFP.

20. **The item in the amount of Mt765 million within *Other Operations* as an adjustment in respect of VAT refund payments has been postponed to 2016. (Table 1 row 4) is not appropriate.** This item represents amounts payable but not yet paid by the government. However, since the *Mapa Fiscal* is prepared on a cash basis, this item should not be included. The suggested adjustment to *Other Operations* is detailed in Table 9.

Table 9. Mozambique: Suggested Adjustment to the *Mapa Fiscal* 2015

	Amount <i>(In millions of Mozambican meticais)</i>	Suggested Amendment	Comment/Explanation
VAT refund payments postponed to 2016	-765	Adjustment from Other Operations (+765) to Other Expenditure/Revenue (-765)	Adjustment of an item representing payables out of <i>Other Operations</i> as it is not a 2015 cash transaction.

21. **An adjustment to the NCG is required in respect of VAT refund claims, being the difference between VAT refund claims and VAT refund cash payments.** The treatment of VAT refunds in the *Mapa Fiscal*, which follows from the MEFP and TMU, should be consistent with the calculation of the NCG. Since non-rejected VAT refund claims do not directly represent cash payments while the NCG is cash-based, the need for an adjustment to the NCG arises. Actual VAT refund cash payments in 2015 totaled Mt5,797

million (Table 10), while VAT refund claims totaled Mt5,931 million (Table 7), giving rise to a difference of Mt134 million (Table 11). The suggested adjustment to the NCG is detailed in Table 12.

Table 10. Mozambique: Actual VAT Refund Cash Payments in 2015

<i>Amount (In millions of Mozambican meticals)</i>	
2 713	Payments of VAT refund claims for 2015
982	Payments of VAT refund claims for 2014 and earlier
2 048	Payments of VAT refund claims for 2014 and earlier, these claims were submitted to the AT in 2014 and earlier
54	VAT refund payments to diplomats
5 797	Total cash paid for VAT refunds during 2015

Source: Tax Authority.

Table 11. Mozambique: Calculation of an Adjustment to the NCG 2015

VAT Refund Claims for 2015 (1) (Table 7)	Cash Paid for VAT Refunds During 2015 (2) (Table 10)	Difference (1) – (2)
5 931	5 797	134

Source: IMF mission calculations.

Table 12. Mozambique: Suggested Adjustment to the NCG

	<i>Amount (In millions of Mozambican meticals)</i>	Suggested Amendment	Comment/Explanation
VAT refund adjustment to the NCG	134	Adjustment from the Other Expenditure/Revenue (-134) to the NCG (+134)	Adjustment to the NCG of the difference between non-rejected VAT refund claims and cash payments for VAT refunds in 2015 (Table 11).

22. **Approved but unpaid VAT refund claims should be recorded as debt obligations in line with the TMU.**¹⁴ According to the Tax Authority, at the end of 2015, the total amount of VAT refund claims submitted to the Tax Authority was Mt9,036 million, of which Mt3,764 million has been approved for payment and Mt5,272 million were still in the analysis stage (Table 13). The approved VAT refund claims of Mt3,764 million represent arrears of the government, which are defined as debt obligation in the TMU.

23. **Since a large part of the VAT refund claims under analysis are likely to be paid, it may also be appropriate to treat a proportion of these claims as debt obligations.** Historically, the Tax Authority has approved 84 percent of submitted VAT refund claims for

¹⁴ TMU, F. Debt, Definition of debt, December 2, 2015.

payment in the first round of analysis and only 6.4 percent are finally rejected.¹⁵ This suggests that around 93.6 percent of the Mt5,272 billion worth of claims under investigation are likely to be approved ultimately—an amount of Mt4,935 million.

24. **The mission suggests that both approved but unpaid VAT claims and the amount of VAT claims under investigation that are expected to be paid should be recorded as debt obligations in order for the amount of debt obligations to be closest to economic reality.** There are three options to quantify the amount of outstanding VAT refund claims to be recorded as a government internal debt obligation (Table 13). Option 2 is based on macro-economic statistics, while Options 1 and 3 take into account, expected liabilities from claims under analysis. Taking into account that, historically, during the lengthy analysis process, a very high proportion of non-rejected claims, but not all, are finally accepted for payment. **The mission recommends Option 3 as the preferred basis for quantifying the amount of debt obligation, since it provides the best sense of economic reality.**

Table 13. Mozambique: Three Options for Quantifying the Amount of Debt Obligation from VAT Refund Claims

	VAT Refund Claims as of end-2015 in millions
OPTION 1	
382	Outstanding VAT refund claims from 2014
8 654	Outstanding VAT refund claims submitted in 2015, including both claims approved for payment and claims in the analyses phase
9 036	Outstanding VAT refund claims including potential liabilities
OPTION 2	
382	Outstanding VAT refund claims from 2014
8 654	Outstanding VAT refund claims submitted in 2015, including both claims approved for payment and claims in the analysis phase
-5 272	Outstanding VAT refund claims in the analysis phase
3 764	Outstanding VAT refund claims approved for payment
OPTION 3	
	<i>Option 2 plus expected amount of valid claims currently under analysis (based on historical statistics)</i>
3 764	Outstanding VAT refund claims approved for payment
4 935	Expected amount of valid claims currently under analysis. Historically 93.6 percent of claims analyzed have been accepted for payment. (5272*93.6 percent)
8 699	Outstanding VAT refund claims approved for payment and probable for payment

Source: Tax Authority; IMF mission calculations.

C. Recording Leasing Transactions

25. **Financial leases for public buildings are recorded as *Other Operations* in the *Mapa Fiscal* and as part of the internal debt stock by the DNT.** The authorities have been actively using leasing as a source of funding for building and renovating government

¹⁵ Aide memoire: “Reforming VAT Refunds Management,” IMF’s Fiscal Affairs Department, September 2014.

buildings. As of end-2015, the stock of leasing contracts signed totaled Mt10.6 billion (1.8 percent of GDP), of which the outstanding balance of lease obligations, Mt7,638 million, was recorded in the internal debt stock by the DNT (Table 14). The leasing contracts are typically signed with domestic commercial banks with a maturity of seven years. The mission's understanding of the repayment terms of the leases is that they are financial leases, based on discussions with officials and the one leasing contract template inspected by the mission. In the *Mapa Fiscal 2015*, an amount of Mt221 million has been recorded within the interest expenditure line ('above-the-line') relating to leases, and a further amount of Mt4,128 million has been recorded within *Other Operations* ('below-the-line'). The mission was not able to obtain information regarding the detailed breakdown of the amount of Mt4,128 million (Table 1, Row 3).

26. Further analysis is needed to substantiate the amounts in the *Mapa Fiscal* relating to financial leases. In 2015, the authorities signed four new lease contracts in the amount of Mt8,448 million. According to the DNT, drawings under lease contracts totaled Mt5,703 million in 2015, of which Mt5,571 million were drawings under the new lease contracts and Mt132 million was drawings under a leasing contract signed in 2013. The mission was not able to obtain a detailed breakdown regarding actual drawdowns under the new lease contracts. A reconciliation (Table 14) between the stock of loans and leases held by commercial banks as at end-2015, as per the NCG figure provided by the BM, and the internal debt service table for 2015 provided by the DNT shows that the stock of domestic leases and loans as per the DNT is Mt4,354 million larger than the stock recorded by domestic commercial banks as per the BM (Table 14). Further analysis is needed to identify the causes for this difference. A similar reconciliation should be carried out for end-2014 to ensure that financing flows in 2015 (and not just the stock at end-2015) are captured accurately.

27. Amounts relating to leases should be recorded in *Mapa Fiscal 2015* based on actual drawings from the leases during 2015 as increases in capital expenditure ('above-the-line'). According to the *GFSM 1986*,¹⁶ a purchase paid for by the government in the form of a fixed-term contractual obligation should be shown as both expenditure and a borrowing transaction at the time the terms of the credit contract for creation of the debt are fulfilled. Drawings should be shown in an amount equal to the amount of funds received by the government or, under the terms of a credit contract, the debt created.

28. It should be noted that the treatment of leases may be different under the *GFSM 1986* compared to *GFSM 2001* and *GFSM 2014*. Table 15 summarizes the three treatments for recording financial leases based on the different *GFSM* principles. Table 16 sets out the suggested recording of leases as currently reported as "other operations" in the *Mapa Fiscal 2015* according to the *GFSM 1986*.

¹⁶ *GFSM 1986*, Chapter 4 : Classification, Section IV.C.2. Financing by Type of Debt Instrument, 3. Long-term loans not elsewhere classified, 3.1. Drawings, page 214.

Table 14. Mozambique: Reconciliation of Government Domestic Leases and Loans to the NCG as at end-2015

2015 In millions	NCG	Central government	Difference	Comment
Total credits of leases and loans	21 302	12 911		
<i>Of which leases</i>		7 638		
<i>Of which loans</i>		13 444		
<i>Of which VAT securitization</i>		-8 171		Adjustment for different classifications of VAT securitization in the NCG and by central government. VAT securitization is shown as a loan in central government internal debt and as treasury bonds (T-bonds) in the NCG figure reported by the BM.
<i>Adjustments:</i>				
Portuguese credit line	-12 746			Excluded from the NCG as it is not covered under the definition of central government. ¹⁷
Total leases and loans as of end-2015 (adjusted)	8 557	12 911	4 354	Debt per the DNT is larger than banking sector leases and loans granted to central government per the BM.

Source: BM; DNT; IMF mission calculations.

¹⁷ TMU paragraph 4, December 2, 2015.

Table 15. Mozambique: Recording Financial Leases based on different GFSM Principles

GFSM 1986	
Recording	<p>Any payments for a financial lease will be recorded as capital expenditure at the time the payment for the financial lease is made, i.e., it is recorded as if every payment acquires a small portion of the asset.</p> <p>Due to this premise for the recording, the liability (debt) related to the financial lease are not recognized in the environment, because it was argued that when the debt was incurred no cash flows occurred. In total, it could lead to a whole lot of underestimations not only of the stock of nonfinancial assets that government has ownership over, but also of the liabilities that the government has incurred.</p>
GFSM 2001 (cash environment)	
Recording	<p>A leasing transaction is divided into parts to record all the economic events as if a financial flow did occur.</p> <p>It is argued that the government has obtained a loan from a bank (i.e., entities cash increased, and a liability toward the bank is recognized), with which the entity is then deemed to have purchased a nonfinancial asset (cash decreased and nonfinancial asset of equal value is acquired), in subsequent periods when the financial lease payments are made, these payments are recorded as repayments on the loan with banks.</p>
GFSM 2014 (accrual based)	
Recording	<p>The treatment of financial leases is designed to capture the economic reality of such arrangements, by treating assets under a financial lease as if they were purchased and owned by the user. The lessee (economic owner) records the acquisition of the asset that is financed by an imputed loan. The loan is redeemed through payments during the contract.¹⁸</p>

Source: IMF's Statistics Department.

Table 16. Mozambique: Suggested Treatment for Leases Currently Reported as Other Operations (GFSM 1986)

	Amount <i>(In millions of Mozambican meticals)</i>	Suggested amendment	Comment, explanation
Leasing for public buildings	4 128	Reclassification from Other Operations (-4 128) to capital expenditure (+4 128)	On the basis that all lease contracts are financial leases and that the amount of Mt4,128 is correct (Note: the mission has not been able to confirm this amount, further work needs to be done to verify the figure of Mt4,128 million), the amount can be considered as the purchase of nonfinancial assets (i.e., the public buildings that are the subject of the leases) according the <i>GFSM 1986</i> .

¹⁸ *GFSM 2014*, A4.13.

D. Issues Related to Reconciliations

29. **It would be worthwhile for the authorities to carry out regular formal reconciliations between the *Mapa Fiscal* and the NCG.** The NCG calculated by the BM is used in the *Mapa Fiscal* for the line ‘*Net internal financing*’. Although the Ministry of Economy and Finance and the BM meet monthly to discuss and identify the causes of any changes in the NCG, there is no formal reconciliation between the government’s fiscal data and the BM-calculated NCG. Such a reconciliation would be valuable in ensuring the accuracy of government records and would potentially identify reconciling items to be adjusted, thereby reducing the amount of unallocated expenditure/revenue, which is a balancing item in the *Mapa Fiscal*.

30. **Any such reconciliation would best be carried out on a product-line basis.** Net internal financing is the difference between transactions involving financial assets (e.g., the central government bank accounts’ balances) and financing transactions (e.g., treasury bills (T-bills), treasury bonds (T-bonds), financial leases, other loans). To facilitate identifying differences and associated reconciling items, it would be most efficient to compare government data with the BM data at an individual product level (i.e., bank accounts in the BM and commercial banks; T-bills; T-bonds; financial leases; other loans). Discrepancies between the fiscal data and the monetary data can arise for various reasons, including differences between those bank accounts included by DNT in the *Mapa Fiscal* and those bank accounts recorded by commercial banks in the monetary survey and included by the BM in the NCG by commercial banks, use of different foreign exchange rates, and other differences in valuation bases.

31. **The NCG should be adjusted for changes in non-commercial bank holdings of T-bonds.** In its monetary survey for the NCG calculation, the BM includes the stock of T-bonds owned by commercial banks purchased in the primary and secondary markets but excludes the stock of T-bonds owned by other investors. Any secondary market T-bond transactions (or non-monetary transaction in T-bills, which we understand to be negligible in amount) between banks and other investors will impact the NCG figure, and indeed the TMU provides that the NCG should be adjusted downward (upward) for any increase (decrease) in domestic financing from the non-financial private sector.¹⁹ Table 17 reconciles the NCG to the balance of government domestic securities and Table 18 shows that commercial banks have been net purchasers of T-bonds (excluding VAT securities) in the amount of Mt1,025 million from other investors in the secondary market in 2015. If the NCG is not adjusted for this amount, this leads to an increase in the NCG without any actual transaction by the government (Table 18). (It should be noted that where T-bills are issued for monetary purposes, an offsetting cash balance is included by the BM in the NCG calculation.) Table 19 details the suggested adjustment to the NCG for 2015, excluding the impact of VAT securitization bonds as these are discussed in the following paragraph.

¹⁹ TMU paragraph 20, December 2, 2015.

Table 17. Mozambique: Reconciliation of Government Domestic Securities to the NCG as of end-2014 and end-2015

	2014 <i>In millions</i>	NCG	Central Government	Difference	Explanation for Difference
1.	T-bills	37 551	8 400	29 151	The central government reports a smaller amount of T-bills than the amount owned by banks. The difference is T-bills issued for monetary purposes.
2.	T-bonds	16 839	20 940	-4 101	Banks own a smaller amount of T-bonds than issued by the central government. The difference is T-bonds held by other investors.
	<i>Adjustments:</i>				
3.	BM recapitalization bonds	-4 500	-4 500	-	An adjustment according to the TMU. ¹
4.	Adjustment for the T-bills issued for monetary purposes	-	29 151	-29 151	An adjustment to the central government debt stock that is offset by an equivalent cash balance in the NCG
5.	Total securities as of end-2014 (adjusted)	49 890	53 991	-4 101	The difference is explained by T-bonds held by other investors.
	2015				
6.	T-bills	36 303	23 475	12 828	Central government reports a smaller amount of T-bills than the amount owned by banks. The difference is T-bills issued for monetary purposes.
7.	T-bonds	21 600	24 676	-3 076	Banks own a smaller amount of T-bonds than issued by the central government. The difference is T-bonds held by other investors.
8.	VAT securitization bonds issued in April 2015	5 949	8 171	-2 222	The difference represents VAT securities held by non-bank investors.
	<i>Adjustments:</i>				
9.	BM recapitalization bonds	-4 500	-4 500	0	An adjustment according to the TMU.
10.	Adjustment for the T-bills issued for monetary purposes.		12 828	-12 828	An adjustment to the central government debt stock that is offset by an equivalent cash balance in the NCG.
11.	Total securities as of end-2015 (adjusted)	59 352	64 650	-5 298	The difference represents T-bonds and

	2014 <i>In millions</i>	NCG	Central Government	Difference	Explanation for Difference
					VAT securitization bonds held by other investors.

Source: BM; DNT; IMF mission calculations.

¹TMU paragraph 2, December 2, 2015.

Table 18. Mozambique: Calculation of Adjustment in the NCG in Respect of Changes in Other Investor Holdings of T-bonds

Other investor holdings of T-bonds (excl. VAT securitization bonds)		Adjustment to the NCG
2014 (1) (Table 17, Row 2)	2015 (2) (Table 17, Row 7)	Change (2) - (1)
4 101	3 076	-1 025

Table 19. Mozambique: Suggested Adjustment in the NCG in Respect of Changes in Other Investor Holdings of T-bonds

	Amount (In millions of Mozambican meticals)	Suggested amendment	Comment, explanation
Increase in banks holdings of T-bonds due to purchases from other investors in 2015	-1 025	Adjustment from other expenditure/revenue (-1 025) to the NCG (-1 025)	Adjustment according to the TMU. The NCG is decreased by the net amount of T-bonds purchases by banks from other investors (Table 18).

32. The amount of bonds issued in the VAT securitization and currently held by domestic banks should be presented as an adjustment to the NCG according to the TMU,²⁰ rather than shown within *Other Operations*. As discussed in paragraph 5 of this section, the Mt8,171 million VAT securitization was reported as an increase in the government's debt stock for 2015 but not included in the *Mapa Fiscal 2015*. All the securities were issued to nonbank investors. Banks have purchased Mt5,949 million out of Mt8, 171 million issue of these securities in the secondary market and their stock of holdings has been captured in the NCG. As secondary market transactions of government bonds do not represent cash transactions by the government, an adjustment should be made to the NCG as provided in the TMU, rather than recording the amount of bank holdings within *Other Operations* (Table 1, Row 1) in the *Mapa Fiscal* (Table 20).

²⁰ TMU paragraph 20, December 2, 2015.

Table 20. Mozambique: Suggested Treatment for VAT Securitization Currently Reported as *Other Operations*

		Amount <i>(In millions of Mozambican meticaís)</i>	Suggested Amendment	Comment/Explanation
1	VAT securitization	5 949	Reclassification from Other Operations (-5 949) to the NCG (-5 949)	Domestic banks have bought Mt5,949 million of VAT securitization bonds in the secondary market. According to the TMU, the NCG should be adjusted downward for any increase in the amount of these bonds owned by domestic banks.

33. **The impact of changes in foreign exchange rates in the calculation of the NCG by BM should be analyzed.** The government has entered borrowing transactions in foreign currencies with local commercial banks and also has bank accounts denominated in foreign currencies in BM and local commercial banks. According to the BM, the balance of bank accounts and deposits denominated in foreign currency amounted to Mt10,220 million (or 12 percent of the total deposits) as of end-2014 and Mt7,930 million (or 13 percent of the total deposits) as of end-2015. Where there is a change in the foreign exchange rate, a change in the NCG arises without any corresponding new transaction by the government. This would suggest the need for an adjustment to the NCG. However, it appears that this issue has not been addressed.

E. Other Issues

34. **Debt repayments in respect of the government’s own direct obligations should be recorded in the *Mapa Fiscal* separately from debt repayments made by the government on behalf of state-owned enterprises (SOEs).** During 2015, the government made debt repayments on behalf of two state-owned companies, Sogir and Maputo Sul, in the amount of Mt202 million, of which interest cost was Mt175 million and repayment of principal Mt27 million. The mission learned that the government payments to the banks on behalf of its SOEs were one-off transactions and that the government has not assumed the debt of these SOEs. In the *Mapa Fiscal* 2015, the interest cost paid by the government on behalf of the SOEs has been recorded as debt service charges (interest). However, the repayment of principal has not been recorded in the *Mapa Fiscal* but only in the NCG. According to the *GFSM 1986*,²¹ government payments for the amortization of the debts of others, so long as the government has not assumed the debt or acquired a corresponding claim against the debtor, should be recorded as capital transfers.

35. **There is a small discrepancy of Mt9 million between the line ‘Net internal financing’ shown in the *Mapa Fiscal* and the NCG provided by the BM.** It is

²¹ *GFSM 1986*, Chapter 4: Classification, Section IV.B.2 Economic classification, 7. Capital transfers, page 184.

recommended to update the line ‘Net internal financing’ from Mt29,232 million in the *Mapa Fiscal 2015* to the NCG number of Mt29, 241 million.

F. Summary of Suggested Adjustments

36. Were the suggested adjustments to be made in the *Mapa Fiscal*, the amount of unallocated expenditure/revenue would move from *Other Expenditure* in the amount of **Mt852.4 million** to *Other Revenue* in the amount of **Mt298 million**. A summary of the suggested adjustments is presented in Table 21, with the mission being unable to reconcile the Mt298 million amount further. Section II provides recommendations as how to strengthen the processes for financial reporting, including the *Mapa Fiscal* for 2016 and future years.

Table 21. Mozambique: Summary of Suggested Amendments to the *Mapa Fiscal 2015*

<i>In millions</i>	Mapa Fiscal 2015	Suggested Amendment	Adjusted Amount
Revenue			
Non-rejected VAT refund claims	-6 455	524	-5 931
Expenditure and net lending			
Interest on external debt	4 025	-138	3 887
Subsidy, prices: fuel subsidy for companies	866	3 800	4 666
Investments, internal financing: leasing for public buildings	42 562	4 128	46 690
Net lending, loans to enterprises: guarantee payment for EMATUM debt	2 507	1 805	4 312
Capital transfers: financial restructuring and participation	817	27	843
Other expenditure (+) / revenue (-)	852		-298
Amortization	-6 087	394	-5 693
Other operations (adjustments)	14 384	-14 384	0
VAT securitization	5 949	-5 949	0
Fuel subsidy payment to companies financed by loan	3 800	-3 800	0
Leasing for public buildings	4 127	-4 127	0
VAT refund payments postponed to 2016	-765	765	0
Payment of commercial debt of EMATUM	1 272	-1 272	0
Net internal financing	29 232	-6 831	22 401
Adjustments to the NCG/Net internal financing	6 831		
Adjustment for VAT securitization bonds owned by domestic banks	5 949		
Adjustment for VAT refund cash payments	-134		
Difference between Net internal financing as per the <i>Mapa Fiscal</i> and the NCG figure provided by the BM	-9		
Adjustment for secondary market transactions in T-bonds between commercial banks and other investors	1 025		

Recommendations:

- Consider amending the *Mapa Fiscal 2015* based on the suggested amendments.

- *Start calculating the ‘Net internal financing’ line based on the government’s own fiscal data and introduce a formal reconciliation between the Mapa Fiscal and the NCG figure calculated by the BM.*
- *Consider recording outstanding VAT refund claims as debt obligations as of end-2015 based on the three options described above.*

III. ISSUES RELATED TO THE PREPARATION OF THE MAPA FISCAL AND THE RECONCILIATION OF FINANCIAL DATA

A. Procedures

Findings

37. **Various entities are involved in the preparation of the *Mapa Fiscal*.** The DNCP is currently accountable for the overall process but needs support from the National Directorate of Budget (DNO) and the DNT, as they produce a part of the source data. Thus, an effective and common understanding is necessary to ensure relevant data are produced, transmitted in a timely manner, and correctly used. Discrepancies identified by the mission show that this “common understanding” is not fully ensured yet. Various versions of some dataset have been submitted to the mission. Their sources were not always clearly identified (information on financial leasing, for example). Different definitions of some data are used (“budget support”, “expenditure payable”).

38. **Moreover, significant differences were found between *Mapa Fiscal's* data and the budget execution report (*Relatório de Execução, REO*) established as of December 31, 2015.** Some amendments were made by the National Directorate of Budget (DNO) or DNT to the first version of the *Mapa Fiscal* developed by the DNCP, and identified by the latter during the mission. As shown in Table 22, these adjustments are financially significant.

39. **Likewise, unexplained differences have been identified between the data provided by the DNT on revenue collections²² and those contained in the *Mapa Fiscal* (Table 23).**

40. **Most of the data used to elaborate the *Mapa Fiscal* are produced manually.** This issue is directly linked with a greater general weakness,²³ which has been highlighted in

²² These data are reconciled on a daily basis with data automatically integrated within e-SISTAFE.

²³ e-SISTAFE does not cover all the financial transaction fields: modules related to revenue management and book value of the state’s shareholdings in public enterprises are not implemented yet. Therefore, fiscal reports are established manually by the DNCP, which is heavily burdened by these manual tasks.

previous reports and impairs the availability of complete, reliable, and timely financial reporting.

41. **Information related to Revenue Collection is not extracted from the e-SISTAFE (IT Government Financial Administration System)** even though it is integrated automatically on a daily basis and at the most granular level of the economic classification. However, the DNCP does not use it for its fiscal reporting considering it is not sufficiently reliable. Thus, quarterly reports received from the tax administration are manually processed in order to produce the REO and the *Mapa Fiscal*.

42. **Information about grants and external financing is not captured in e-SISTAFE.** Tables are transmitted (“*tabelas*” 8A and 8B) by the DNT to provide relevant information to the DNCP.

Table 22. Mozambique: Differences between *Mapa Fiscal* and Quarterly Report as of December 2015

Data	<i>Mapa Fiscal</i>	Quarterly Report	Difference
Goods and services	26 871	22 452	4 419
Grants	25 173	20 172	5 001
External Financing	24 227	27 409	- 3182

Table 23. Mozambique: Differences between Data from DNT and *Mapa Fiscal* as of December 2015

<i>In millions of Mozambican meticais)</i>	Data from DNT (« <i>tabela Mensualizado</i> »)	<i>Mapa Fiscal</i>	Difference
Total revenue	144 578	149 058	- 4 480
Current revenue	141 845	145 928	- 4 083
Fiscal revenue	127 758	122 816	4 942
Capital revenue	2 734	3 131	- 397

43. **Some expenditures are still processed outside the treasury single account (CUT).** Thus, integration of data related to these expenditures within e-SISTAFE must be processed manually by the DNCP. For that purpose, public entities have to transmit information on a monthly basis to the DNCP. Supporting documents (essentially bank statements) are joined in consideration of control.²⁴ Everything is received in paper format despite the fact that data seems to have been prepared in an electronic format. In fact, it appears that a part of it is transmitted late: the percentage of data “to be incorporated” at the end of the year confirms that situation. In that context, the comprehensiveness of fiscal reports cannot be ensured.

²⁴ Controls which are necessary to ensure reliability of data incorporated within e-SISTAFE.

According to the “fiscal execution report” for 2015, these expenditures represent a huge part of investment expenditures financed by external funds (Table 24).

Table 24. Mozambique: Amount of Investment Expenditure Financed by External Funds, Executed through the CUT and Outside the CUT

31/12/2015 (10 ³ MT)	Amount	Percentage
Through the CUT	9 558 718	60
Out of CUT - yet incorporated	3 050 472	40
Out of CUT - to be incorporated	3 480 252	
Total	16 089 442	100

Source: Quarterly Fiscal Execution Report December 2015; IMF mission calculations.

44. **Even though segregation of duties within the *Mapa Fiscal*'s preparation process seems to be well designed, its effectiveness and efficiency could be improved.** Reliability of financial information is a key issue. Therefore, its production process must include controls to ensure quality requirements are fulfilled. Within the DNCP, a team is in charge of entering data in the *Mapa Fiscal*. The head of the accounts department supervises their work. Exchanges are organized between departments involved in the elaboration of the *Mapa Fiscal* to address the identified differences and finalize the document. The mission, however, has noticed a great proliferation of different versions for certain data that could make it difficult to identify the source or date of their production.

Recommendations:

- *Consider the opportunity to directly use revenue collection data from the e-SISTAFE. A quarterly reconciliation between the e-SISTAFE and tax administration data could be done to ensure reliability.*
- *Consider reviewing the internal control system requirements in order to integrate more units, and especially more little units, within the e-SISTAFE. To this effect, an official could be allowed to ensure simultaneously several functions. A segregation of duties would be nevertheless maintained: considering, for example, expenditures processes, an official could assume accountability and internal control functions to the exclusion of all others (and vice versa). Thus, a relaxing of internal control system principles and mechanism should be decided: it implies a modification of the 40th article of financial administration manual and an adjustment of management of user profiles in e-SISTAFE.*
- *Incorporate available data on other systems into e-SISTAFE through automated routines created for this purpose. Much of the information communicated to the DNCP is composed of Excel files which can be structured in order to allow a sound and fast integration in the IT system. The availability of such routines will decrease the administrative work consumed in preparing the data. Data regarding outside*

CUT expenditures, the public debt provided by DNT and, if any other possibility, the revenue collection are some examples of information that may be incorporated into e-SISTAFE through this process until the new modules are developed.

- *Develop a guidance document (or reference paper) which presents, in a concrete way, the main features of the Mapa Fiscal's production process: tasks to be done, data to be used (nature, source), controls to be performed, and calendar of the overall operations to be completed. The mission suggests a general pattern (Appendix II).*
- *Implement a system of supervision (quality assurance) to ensure reliability of the Mapa Fiscal data. For this purpose, all the data and supporting documents should be gathered in a "revision file" in electronic format, if possible. In addition, a segregation of duty could be organized within the DNCP: some staff responsible but not involved directly in the "business process" may verify the comprehensiveness of the file and the consistency of the overall information.*
- *Finally, a technical committee involving the DNCP, DNT, DNO, could be created to discuss problems faced during the ongoing process and address discrepancies that could not have been otherwise solved.*

B. Debt Management

Findings

45. **Borrowing and on-lending transactions are recorded on a stand-alone IT system: The Commonwealth Secretariat Debt Recording and Management System (CS-DRMS).** The CS-DRMS is deployed for recording both debt management transactions in different currencies and on-lending transactions. Leases and on-lending contracts were recorded in CS-DRMS in 2015. According to the DNT, currently about 90 percent of on-lending contracts are recorded in CS-DRMS. Previously, leases and on-lending contracts were recorded in Excel worksheets.

46. **The CS-DRMS system is not currently linked to either e-SITAFE or the BM.** The authorities are considering creating an interface between the debt management system, e-SISTAFE and the BM in order to facilitate automated bank reconciliations. In addition, the launch of a payment alert function has been considered in order to give automated notices of payments two to four days before the due date. Currently, the authorities carry out daily manual controls of debt payments falling due, using the report of daily payments for the next month provided by the CS-DRMS.

47. **There are formal debt reconciliation processes in place for external borrowings with multilateral and bilateral creditors.** Annual reconciliation letters are sent in November and December to counterparties to verify the balances of external debt. Some creditors carry out their reconciliations quarterly and semi-annually. Also, certain creditors

send their payment advice before the debt interest and repayment of principal to confirm the payment details. The authorities reconcile the information received with their records in the CS-DRMS. External loans from multilaterals mainly have fixed interest rates, while loans from bilateral creditors mainly have variable interest rates. The authorities reconcile fixings of variable rates with the creditors.

48. **Debt service payments for external debt are made through dedicated bank accounts at the BM.** External debt service payments are registered in the CS-DRMS when a SWIFT message of the payment is received from the BM. Creditors anyway often confirm the receipt of the payment in writing. Internal debt service payments are made through e-SISTAFE.

49. **On an annual basis, the authorities reconcile internal debt obligations with domestic counterparties, but not with the NCG figure from BM.** The reconciliation of T-bonds is done with the stock exchange where the T-bonds are listed. The BM also issues T-bills on behalf of the government and the reconciliation for T-bills is carried out with the BM. Other loans and leases are annually reconciled with domestic banks. However, the authorities do not reconcile the stock of the government's internal debt with the NCG figure provided by the BM (as discussed in previous section on *Mapa Fiscal 2015*). It is recommended, to carry out the reconciliation of internal debt stock to the NCG at least annually.

50. **There is no formal reconciliation of on-lending contracts.** The reconciliation of on-lending contracts is only carried out with larger SOEs as part of the SOEs' annual external audits. The authorities do not reconcile the outstanding balances of on-lending contracts with smaller borrowers. There are currently around 130 on-lending contracts.

Recommendation:

- *Consider introducing a formal reconciliation of on-lending contracts with all counterparties.*

C. Cash Management

Findings

51. **Most of the business operations are executed through the CUT.** Nevertheless, according to the Center for Development of Financial Information Systems (CEDSIF), about 30 percent are still executed outside the CUT. These are executed through accounts open at the BM or through commercial bank accounts.

52. **Regular bank reconciliation is crucial to ensuring accurate and comprehensive fiscal reporting.** A daily reconciliation of transactions occurred through the CUT is made

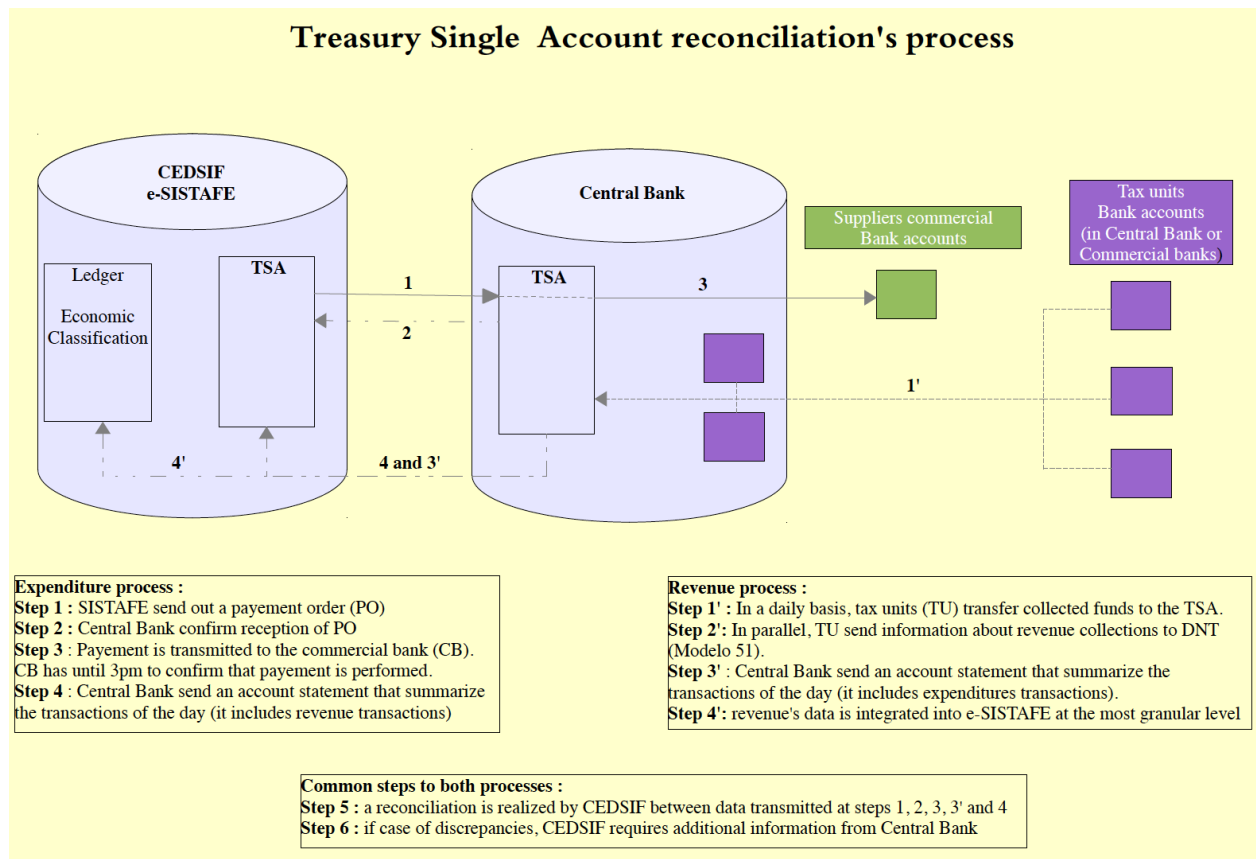
between the CEDSIF and the BM. This operation is carried out automatically as described in Figure 1.

53. **Even though this approximation of the daily flow is useful, it cannot serve as a substitute of comprehensive reconciliation at end of the year, which is not performed at this time.** Moreover, it is also important to make sure reconciliation is done between tax unit bank accounts and their books. The DNT and the DNCP consider this issue as being the responsibility of the tax administration and, thus, cannot be assured that everything is done to regularize outstanding transactions.

Recommendations:

- *The DNT should request supporting documents to ensure that all bank account reconciliations are made by tax units. An explanation of any discrepancies should be provided at the same time.*
- *An effective reconciliation of the overall position of the CUT between the DNT and the BM should be established (Box 1).*

Figure 1. Mozambique: Treasury Single Account Reconciliation Process



Box 1. French Experience on TSA Reconciliation

In France, all transactions are executed, whatever their nature (expenditures or revenues), directly through the TSA.

For this purpose, a subaccount is created within the TSA for each public accountant. Public accountants are the only officials authorized to make payments or collect revenue.

At the end of the fiscal year, in order to consolidate the TSA, public accountants have to reconcile their “subaccount” with their general ledger. They have also to send a supporting document of this reconciliation to the General Directorate of Public Finances.

The General Directorate of Public Finances could then perform reconciliation with the Bank of France to justify the position of the TSA.

This reconciliation is formalized in a co-signed document from the central bank and the General Directorate of Public Finance authorities, confirming the balance of the TSA in the general ledger and in the central bank books on December 31.

This document and supporting work papers are available for control by the court of accounts.

IV. GOVERNMENT FINANCE STATISTICS DEVELOPED INTO THE *GFSM 2014*

A. Findings

54. **The compilation of fiscal statistics in accordance with the *GFSM 2014* was initiated in 2011.** Nevertheless, frequent changes in the team in charge of this project, especially during the past year,²⁵ have affected the team’s skills development and limited the progress.

55. **It is necessary that the team responsible for the compilation of fiscal data is trained in the *GFSM 2014*, but it is also recommended that it has basic accounting knowledge and advanced handling of Excel.** During the mission, officials were trained with basic knowledge about the framework of the *GFSM 2014* and the manual’s most important concepts.

56. **The mission focused on improving the format of the current database** with a view to making it easier to manage, update, and reconcile with the calculated data for the program control (*Mapa Fiscal*). The work should be continued if it is to be fruitful.

57. **The *GFSM 2014* provides the opportunity to have the information about stocks and flows, balances between expenditure and revenue, as well as the financing for one period all in one chart.** Furthermore, thanks to this format, it is also possible to obtain the information with a historical series format of revenue as well as expenditure and, at the same time, the transactions in assets and liabilities and their corresponding stocks.

58. **Today the information is contained in quarterly REOs** with a publication delay of 45 days after the ending of the quarter, where only the flow data accumulated up to the end

²⁵ The new Department of Studies and Planning depending on the Direction of Studies and Economic Analysis was created in June 2015 with the restructuring of the Finance Ministry.

of each corresponding quarter is published, not including stock data. This publication is done in paper and in a pdf file.

59. **The stocks and flows cumulative data are published annually in the government's annual report (*Conta Geral do Estado, CGE*)**, a publication that is done in paper and pdf within five months after the end of the fiscal year. It includes information on the budgetary central government's cash position debt and financial assets. There are currently no publications with series of data available. The exception was a report published once in the year 2013, with annual data regarding budgetary execution since 1999.

60. **The necessary data for the fiscal statistics compilation are supplied by different organizational units** within the government, but until now, there is no a formal agreement of information delivery. Therefore, the gathering of information depends most of the time on the goodwill of the different parties involved. A chart with each kind of information is required with the delays and regularity (Appendix III).

61. **It is important and necessary to devise a protocol of information delivery** where the periodicity and timeliness of the information is specified, as well as the support of that information, and the maximum deadline to receive it.

62. While this protocol is not designed nor institutionalized, it is advisable to **designate the DNCP as the central supplier of the quarterly information contained in the REO and the annual information contained in the CGE**. This will allow for information on flows to be obtained on a quarterly basis, and for information on stocks to be obtained on an annual basis, with a delay of at least five months. But this assures the consistency of data. The support in which the information can be received could be in Excel files, which is what is being used to compile statistics data. This would considerably lessen the mistakes that are made in the transfer of information from pdf or paper to Excel files.

63. To ensure the efficiency of the requirement of information, it is necessary to **carry out a selection of charts that are needed for compilation and then submit a request to the DNCP**. This was discussed during the mission with those responsible for this information and they agreed to coordinate the necessary work.

64. It is necessary to achieve **improvement in the quality and consistency of the fiscal figures** to make a closing of the compiled information contained in the *Mapa Fiscal* and/or with the summarized information in Chart 2 "Budgetary Balance of REO for the Quarterly Data" and Chart 7 "Budgetary Balance for the *CGE* for the Annual Data".

65. The mission worked with the data accumulated during 2015, which are presented in the *Mapa Fiscal* and **displayed this data in the format of the GFSM 2014** (Appendix IV).

66. **It would be desirable that the template used to control the program with the IMF and the Mapa Fiscal be derived from the statistics tables of fiscal data**, after making the necessary adjustments to these charts and taking into account the commitments and agreements outlined in the TMU.

Recommendations:

- *Design a formal agreement between the people in charge of the compilation and the data providers that establishes the form, frequency, and delay of the fiscal information that should be sent. It is necessary that this agreement be validated by the corresponding authorities to ensure its implementation.*
- *Centralize the request for information mainly with the DNCP, in order to achieve internal consistency in the data until the formal agreement recommended in the previous paragraph has been established.*
- *Reconcile data compiled with information of flows included in the Mapa Fiscal, and also with the Chart 2 of the REO and Chart 7 of the CGE.*

Appendix I. Mozambique: List of Officials Interviewed**Center for Development of Financial Information Systems**

Ketm Mahanague Matavele, Director of Organization and Modernization Services

Bank of Mozambique

Domingo Fumo, Economist Assistant Manager of Research and Statistics Department.

Pedro José Nhampule, Head of Service of Maputo Branch

Directorate of Economic and Finances Studies

Vasco Correia Nhabinde, National Director

National Directorate of Treasury

Adriano Ubisse, National Director of Treasury

Mastalino Mastala, Deputy National Director of Treasury for Economic Area

National Directorate of Public Accounting

Tomas Dimande, National Director

**Appendix II. Mozambique: Methodological Guide for the Development of the
*Mapa Fiscal***

**METHODOLOGICAL GUIDE
FOR
THE DEVELOPMENT
OF THE *MAPA FISCAL*
PRELIMINARY DRAFT**

TABLE OF CONTENTS

I- Purpose of the document

II- What *Mapa Fiscal* is

III- The stake holders

IV- Figure of the overall process

V- Activities to be perform at the different steps

VI- Appendix

Document template

List of acronyms

Lexicon

I- PURPOSE OF THIS DOCUMENT

This guide is intended for all stakeholders involved in the development or use of the "Mapa Fiscal" ^[1] _[SEP].

It describes operationally tasks that have to be performed at different stages of the procedure, from data collection to dissemination of the "*Mapa Fiscal*".

II- What *Mapa Fiscal* is

The *Mapa Fiscal* is one of the main fiscal reports that the authorities provide to the IMF according to the Technical Memorandum of Understanding (TMU).

More generally, the *Mapa Fiscal* is a statistical document that describes the main changes in the central government's assets and liabilities during a given period. These changes are presented following an economic classification that respects requirements of the *Government Finance Statistics Manual* from the IMF.

Thus, it provides a comprehensive framework suitable for analyzing and evaluating fiscal policy.

[Key concepts or components (expenditures, revenues, net lending...) could be also defined here]

III- THE STAKEHOLDERS

Three stakeholders are involved in the process:

- The one who is accountable of the overall process. This responsibility covers validation and dissemination of the *Mapa Fiscal* but also of its monitoring system (calendar, data production requirements...).

Given the current organization of the process, the DNT could assume this responsibility.

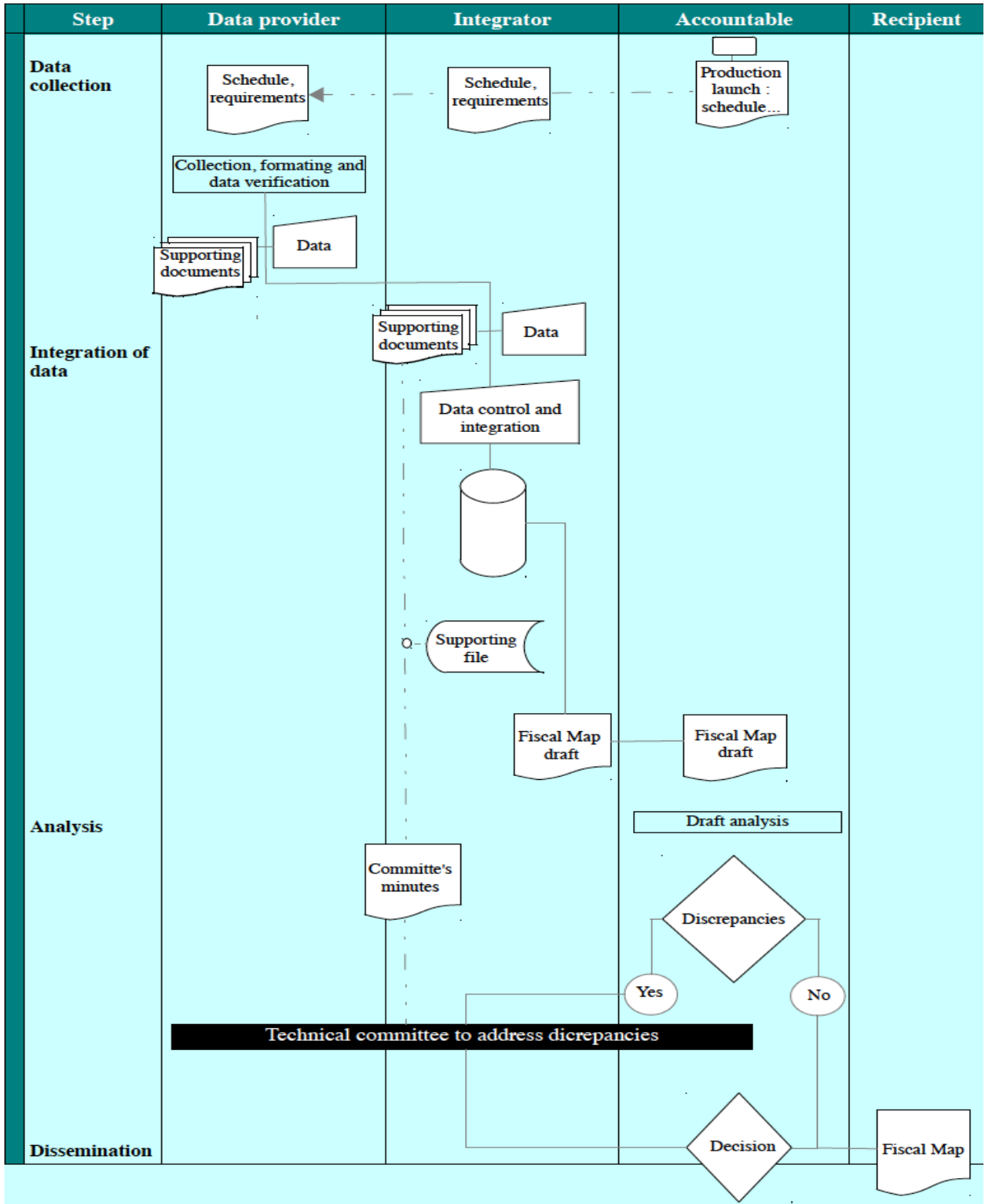
This choice does not imply that the DNT must be in charge of the document preparation tasks. This function ("integrator") could be carried out, as is currently, by the DNCP who holds an important part of the information. Its role must also be to ensure the reliability of the data.

- The one who provides the data: several directions or departments are involved in the production of data needed to prepare the *Mapa Fiscal* (the DNT, the DNO, the DNCP, tax administration, the CEDSIF...).

They have to provide timely data in the expected format but also justify the checks (reconciliation...) carried out to ensure reliability.

- The recipient(s) of the *Mapa Fiscal*.

IV- MOZAMBIQUE: FIGURE OF THE OVERALL PROCESS



V- ACTIVITIES TO BE PERFORMED AT THE DIFFERENT STEPS

This part is dedicated to the description of tasks that have to be performed at each step of the process.

STEP 1: DATA COLLECTION

All the relevant data must be precisely identified and defined. At the same time, all the controls needed to ensure reliability of these data have to be described.

These requirements should be regularly reminded to the data providers. For this purpose, the department responsible of the overall process should focus on these issues, each time the process is launched.

Issuer	Data		
Data features	Source	Format	Frequency
	Additional comments		
Control activities			
Supporting documents			

For example:

DNCP	Revenue collection		
Data features	Source	Format	Frequency
	e-SISTAFE	Spread sheet	Quarterly
	Additional comments		
	Only the revenues received during the period are taken into account. Refunding's of VAT carried out during this same period are specifically identified and presented as a deduction of these revenues.		
Control activities	These data must be reconciled with the information provided by the tax authority. It is also advisable to make sure that the expected bank accounts reconciliations expected from tax units were carried out.		
Supporting documents	Documents justifying reconciliation of the data as well as banking reconciliations must be joined to the "supporting file".		

Step 2: Integration of the Data

In accordance with the requirements reminded in the message from the authority accountable of the overall process, the department in charge of integration of data into the *mapa fiscal* spreadsheet:

- ✚ checks that all the data were delivered in accordance with the definite calendar;
- ✚ if not, a recall is sent to the issuer (cc to the authority accountable of the process);
- ✚ checks coherence between the transmitted data and the supporting documents;
- ✚ if discrepancies are identified, asks for explanation and, if necessary, corrections;
- ✚ integrates data into the *mapa fiscal* spreadsheet;
- ✚ produce the *mapa fiscal* and send it to the authority accountable of the process. If necessary, a note setting difficulties encountered is joined;
- ✚ stores the supporting documents into a supporting file.

Step 3: Analysis of the *Mapa Fiscal* Draft

The authority in charge of the overall process received the *mapa fiscal* draft from the department in charge of integration of data.

The authority analyses the draft in order to:

- ✚ verify the comprehensiveness of the document;
- ✚ address issues reported by the department in charge of integration of data;
- ✚ make sure that there are no discrepancies;
- ✚ otherwise, decide whether it's appropriate to plan a meeting of a technical committee, involving DNCP, DNT, DNO and other parties involved in the process.

Minutes of this meeting are prepared and sent to the department in charge of the integration of data, in order to be joined to supporting file.

In accordance with the decisions taken by the committee, the authority accountable of the overall process produces the final version of the *mapa fiscal*. Changes are documented and communicated to all parties involved, including the department in charge of integration of data.

Step 4: Dissemination of the *Mapa Fiscal*

The authority in charge of the overall process carries out the dissemination of the final version.

Appendix III. Mozambique: Fiscal Statistics Source Data

	Source Data/Data media	FLOWS					STOCKS				
		1 Revenue	2 Expense	3.1 Financial Assets	3.2 Financial Assets	3.3 Liabilities	6.1 Non Financial Assets	6.2 Financial Assets	6.3 Liabilities	Information lag	Frequency
Revenues	Tax Authority/excel	X		X						1 month	Monthly
Budget expenditure	NDPA E- sistafe/pdf, excel		X	X	X	X				2,5 months	Quarterly
Debt data	NDT /excel		X			X			X	1 month	Monthly
Accounts balances: CUT and others	paper				X			X		1 month	Monthly
Shares	By phone									??	Annual
Grants	REO paper						X			2,5 months	Quarterly
CGE	paper/pdf	X	X	X	X	X		X		5 months	Annual

Appendix IV. Mozambique: Mapa Fiscal into the GFSM 2014 Format

		2015	
Fiscal Map GFSM1986		Fiscal Map GFSM2014	
1 Total Revenue	149.582	174.755 Cash receipts from operating activities	C1
		149.582 Total Revenue	
2 Total Expenditure without Net Lending	218.200	25.173 Grants	
Other Expenditure non investment	128.348		
Investment Expenditure	89.853	128.348 Cash payments for operating activities	C2
3 Net Lending	4.377	128.348 Other Expenditure non investment	
4 Total Expenditure and Net Lending	222.577	CASH FLOWS FROM OPERATING ACTIVITIES	C1 - C2
		46.408	
5 Global Balance before Grants	-72.995	89.853 INVESTMENTS IN NONFINANCIAL ASSETS (NFAs)	C31
6 GRANTS	25.173		
7 Global Balance after Grants	-47.822	-43.445 Cash surplus / deficit	C1-C2 - C31
8 EXTERNAL FINANCING	25.421		
		CASH FLOWS FROM FINANCING ACTIVITIES	C33 - C32x
9 Net Internal Financing(net credit to the governn	22.401	44.545	
		Net acquisition of financial assets other than cash	C32x
10 Total financing	72.995	-17.742	
		-22.119 Domestic bank financing (info.BM)	
		4.377 Net Lending	
		26.803 Net incurrence of liabilities	C33
		1.382 Divida interna	
		25.421 EXTERNAL FINANCING	
		1.100 Net change in the stock of cash	C321
		$C321 = C1 - C2 - C3 + C33 - C32x$	