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REPUBLIC OF MOZAMBIQUE

FISCAL TRANSPARENCY EVALUATION

February 2015

This Fiscal Transparency Evaluation report on the Republic of Mozambique was prepared by a staff team of the Fiscal Affairs Department of the International Monetary Fund. It is based on the information available at the time it was completed in December 2014.

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FISCAL AFFAIRS DEPARTMENT

REPUBLIC OF MOZAMBIQUE

FISCAL TRANSPARENCY EVALUATION

Prepared by Xavier Rame, Iyabo Masha, Delphine Moretti, Esther Palacio, Dalmo Palmeira, Juana Aristizabal, and Sefa Pamuksuz

December 2014

Approved By
Gilbert Terrier

Prepared by Xavier Rame, Iyabo Masha, Delphine Moretti, Esther Palacio, Dalmo Palmeira, Juana Aristizabal, and Sefa Pamuksuz

CONTENTS

FIGURES

TABLES

Abbreviations

AFROSAI	African Organization of Supreme Audit Institutions
AT	Revenue Authority
BoM	Bank of Mozambique
BNI	National Investment Bank
CFMP	Medium-Term Budget Framework
CEDSIF	Centre for Development of Financial Information Systems
CGE	General Account of the State
COFOG	Classification of the Functions of Government
DEAE	Directorate of Studies and Economic Analysis
DNCP	National Directorate of Public Accounting
DNO	National Directorate of the Budget
DNP	Department of National Planning
DNPE	National Directorate of Public Assets
DNT	National Directorate of the Treasury
DPE	Department of Planning and Statistics
DQAF	Data Quality Assessment Framework
DSA	Debt Sustainability Analysis
DSBB	Dissemination Standards Bulletin Board
e-SISTAFE	SISTAFE Information System
EITI	Extractive Industries Transparency Initiative
EDM	Electricity of Mozambique
EMATUM	Mozambican Tuna Company
EMOSE	Mozambican Insurance Company
ENH	Mozambican Hydrocarbon Company
FAD	Fiscal Affairs Department
FCA	Municipal Compensation Fund
FE	Road Fund
FGD	Deposit Insurance Fund
FIIA	Fund of Local Investment Initiative
FTC	Fiscal Transparency Code
FTE	Fiscal Transparency Evaluation
GAAP	Generally Accepted Accounting Principles
GDP	Gross Domestic Product
GDDS	General Data Dissemination System
GFSM	Government Finance Statistics Manual
IFRS	International Financial Reporting Standards
IGF	Inspectorate General of Finance
IMF	International Monetary Fund
IGEPE	State Equity Holdings Management Institute
INE	National Institute of Statistics

INSS	National Institute of Social Security
INTOSAI	International Organization of Supreme Audit Institutions
IPSAS	International Public Sector Accounting Standards
ISSAI	International Standards of Supreme Audit Institutions
MoF	Ministry of Finance
MT	Metical
PES	Economic and Social Plan
PERPU	Strategic Program for Urban Poverty Reduction
PFM	Public Financial Management
PGC-PE	Chart of Accounts for Small Businesses
PPP	Public–Private Partnership
PQG	Government Five-Year Plan
REO	Quarterly Budget Execution Report
SA	Public Limited Company
SADC	Southern African Development Community
SARL	Joint Stock Company
SDDS	Special Data Dissemination Standard
SERSSE	Social Services of the State Intelligence and Security Services
SISTAFE	Financial and Administrative System of the State
SNA	System of National Accounts
SSA	Sub-Saharan Africa
TA	Administrative Tribunal
TSA	Treasury Single Account
VAT	Value-Added Tax

Preface

In response to a request from the authorities of the Republic of Mozambique, a mission from the Fiscal Affairs Department (FAD) of the International Monetary Fund (IMF) visited Maputo, Mozambique, during the period November 11-25, 2013 to conduct a pilot Fiscal Transparency Evaluation (FTE). The mission was led by Mr. Xavier Rame and included Ms. Iyabo Masha (African Department), Ms. Delphine Moretti (FAD), Ms. Esther Palacio (African Department), Mr. Dalmo Palmeira, Ms. Juana Aristizabal, and Mr. Sefa Pamuksuz (experts).

The objective of the Fiscal Transparency Evaluation was to assess Mozambique's fiscal reporting, forecasting and budgeting, and fiscal risks analysis and management practices against the standards set by the IMF's draft *Fiscal Transparency Code* (FTC).[1] The mission was organized around a series of discussions with staff from key stakeholder organizations in the administration including: the National Directorate of the Budget (DNO), the National Directorate of the Treasury (DNT), the National Directorate of Public Accounting (DNCP), the Inspectorate General of Finance (IGF), the National Directorate of Public Assets (DNPE), the Directorate of Studies and Economic Analysis (DEAE), the Revenue Authority (AT), the National Institute of Statistics (INE), the Centre for Development of Information Systems Finance (CEDSIF), the Public Private Partnerships Unit, the National Institute of Social Security (INSS), the State Equity Holdings Management Institute (IGEPE) and the Bank of Mozambique.

This report is based on the information available at the time it was completed in November 2013. The findings, recommendations, and action plan set out in this report represent the views and non-binding advice of the IMF mission team and do not necessarily reflect the views of or a commitment by the government of the Mozambique. Unless otherwise specified, the data included in the text, figures, and tables in the report are estimates of the IMF mission team and not official estimates of the government of the Republic of Mozambique.

The mission would like to thank the authorities of the Republic of Mozambique for their excellent collaboration in the conduct of this pilot evaluation and for the frank and open exchanges of views on all matters discussed.

[1] The assessment is based on the standards set in "*Fiscal Transparency Code - Consultation Draft of July 1, 2013*", IMF, July 2013.

EXECUTIVE SUMMARY

Mozambique's program of budget reforms has brought most aspects of its fiscal reporting and budgeting practices into line with basic and good practices, as defined under the IMF's *Fiscal Transparency Code* (Table 1.0). The weaknesses on fiscal reporting could be addressed on the short-term by the on-going reforms. The disclosure and management of fiscal risks are inadequate and should be improved on the medium term to face the challenges that may arise from the expected increase in natural resource revenues.

- In 2002, Mozambique adopted a comprehensive public financial management legal framework (SISTAFE Law) taking into account international standards and relevant practices.
- Fiscal reports cover the budgetary central government and part of the general government, and provide information on the value of some assets and liabilities.
- The development and roll-out of the SISTAFE Information System (e-SISTAFE) have contributed to improving the frequency and timeliness of fiscal reports, which are classified in accordance with international standards.
- The planning and budgeting frameworks provide comprehensive and timely projections regarding public finance developments.
- A well-defined mechanism for the coordination of donor funding is operational.
- Central controls over sub-national governments are well established, including strict borrowing limits.

As a result of these reforms, between 2010 and 2012 Mozambique's rating under the International Budget Partnership's Open Budget Index has risen from a score of 28 to 47 out of 100 and from a ranking of 68th out of 94 countries to 55th out of 100 countries.

At the same time, this report highlights a number of areas in which Mozambique's fiscal transparency practices could be further improved:

- Mozambique does not maintain a complete and up-to-date inventory of public sector entities.
- The institutional coverage of fiscal reports is still limited; in particular it does not provide complete and reliable information on the operations performed by the social security fund and numerous autonomous entities, which are likely to be significant.
- The government's fiscal reporting is prepared on a modified cash basis, and important elements of the balance sheet, such as the current value of arrears and of shares of corporations owned by the State, are not reported.

- Apart from risks to external financing, no fiscal risk is recognized or analyzed in budget documents, and there is no strategy for managing them. Risks abound mainly from reliance on donor support for external financing, susceptibility to exogenous shocks from natural disasters, activities of public enterprises, large and multi-annual contracts for infrastructure, as well as contingent liabilities and quasi-fiscal activities.

- There is room to enhance the credibility, transparency, and scrutiny of official fiscal forecasts. Recent discoveries of natural gas, as well as ongoing exploitation of petroleum resources, are likely to transform Mozambique into a major resource rich country in the next few years. But it also comes with risks such as increased volatility of revenue and economic growth, and possible macroeconomic distortions that come with resource boom if not well managed.

- The State owns shares in at least 156 public enterprises and publicly-owned corporations, whose net asset value remains largely unknown. The State institute that oversees these entities, IGEPE, has exerted limited oversight on the financial assets and risks associated with these entities.

Based on the above analysis, this report makes 7 recommendations aimed at materially enhancing the information base for fiscal decision-making in Mozambique and ensuring the country keeps pace with evolving international transparency standards and practices. They are as follows:

- Clarify institutional boundaries and expand institutional coverage,

- Expand balance sheet coverage and clarify the accounting standards,

- Enhance the accuracy and the transparency of official forecasts,

- Improve the analysis and management of fiscal risks,

- Develop disclosures of fiscal risks,

- Improve transparency and risk management in the hydrocarbon and natural resource sector,

- Enhance the financial oversight of public enterprises.

The actions required to implement these reforms are identified in the "Fiscal Transparency Action Plan" included at the end of this report.

Table 1.0. Mozambique: Summary Assessment against Fiscal Transparency Code

Reform Priority	1. Fiscal Reporting	2. Fiscal Forecasting and Budgeting	3. Fiscal Risk Analysis And Management
HIGH IMPORTANCE	1.1. Structure of the Public sector	1.3. Macroeconomic Forecast	1.1. Macroeconomic Risks
	1.2. Coverage of Institutions		1.2. Specific Fiscal Risks
	1.3. Coverage of Stocks		2.3. Natural Resources
	2.2. Timeliness of Annual Financial Statements		2.5. Guarantees
	4.4. Reliability		2.7. Major and Multi-Annual Contracts
			3.4. Health and Social Security
MEDIUM IMPORTANCE	1.4. Coverage of Flows	2.1. Fiscal Strategy Report	2.2. Asset and Liability Management
	1.5. Tax Expenditures	4.1. Fiscal Policy Objectives	2.6. Financial Sector Exposure
	4.1. Statistical Integrity	4.2. Performance Information	2.8. Environmental Risks
	4.3. Statistical Dissemination	4.4. Fiscal Sustainability	3.2. Public Corporations
		5.3. Forecast Reconciliation	3.3. Quasi-Fiscal Activity
LOW IMPORTANCE	2.1. Frequency of In-year Fiscal Reports	1.1. Unity	1.3. Comparability of Fiscal Data
	3.1. Classification	1.2. Gross Budgeting	2.1. Allowance for Budgetary Contingencies
	3.2. Data Consistency	1.4. Medium-Term Budget	3.1. Subnational Governments
	4.2. External Audit	2.2. Budget Submission	
		2.3. Budget Approval	
		3.1. Budget Legislation	
		3.2. Revenue Collection	
		4.3. Citizens' Guide to the Budget	
		5.1. Independent Evaluation	
		5.2. Supplementary Budget	
NOT APPLICABLE	3.3. Historical Consistency		2.4. Financial Derivatives

Not Met	
Basic	
Good	
Advanced	

FISCAL REPORTING

1.0 Introduction

1. **Fiscal reports should provide a comprehensive, timely, reliable, comparable, and accessible summary of the government's financial performance and position.** To do so, fiscal reports, which comprise budget execution reports, fiscal statistics, and government's accounts, should:

- clearly define the boundary between public and private sector and between the general government and government-controlled market producers;
- cover all institutional units engaged in fiscal activity;
- capture all assets, liabilities, revenue, expenditure, financing, and other flows;
- be published in an accessible, frequent and timely manner;
- classify information consistently with international standards;
- explain discrepancies within or between fiscal reports; and
- be prepared by an independent body (in the case of statistics) or scrutinized by an independent national audit institution (in the case of accounts).

2. **This chapter assesses the quality of Mozambique's fiscal reporting practices against those set out in the IMF's Fiscal Transparency Code.** In doing so it separately considers the following dimensions of fiscal disclosure: (i) coverage of institutions, stocks, and flows; (ii) frequency and timeliness of reporting; (iii) quality and consistency of fiscal reporting; and (iv) reliability of fiscal reports.

3. **Mozambique's ex-post fiscal reports have a consistent but limited coverage.** Mozambique's fiscal reports, which are summarized in Table 1.1, comprise the quarterly budget execution report (REO) and fiscal statistics; the annual financial statements (*Conta General do Estado*, CGE) and fiscal statistics; and the quarterly and annual debt reports. They cover the budgetary central government, and are prepared on a cash-basis with limited information on the stocks of assets and liabilities. A detailed analysis of the characteristics of Mozambique's consolidated fiscal report is provided in the following sections.

Table 1.1. Mozambique: List of Consolidated Ex-Post Fiscal Reports

REPORT	Institutions coverage	Flows coverage	Stocks coverage	Basis of accounting	Classification	Freq. of publication	Date (1)
IN-YEAR REPORTS							
Quarterly Budget Execution	Budgetary central government	Revenue, Expenditures, Financing	None	Cash	Economic (GFSM 1986), Administrative, functional (COFOG)	Quarterly	45 days
Quarterly Fiscal Statistics	Budgetary central government	Revenue, Expenditures, Financing	None	Cash	Economic (GFSM 1986)	Quarterly	75 days
Quarterly Debt Report	Budgetary central government	Debt interests and repayments	Debt	Not applicable.	Not applicable.	Quarterly	45 days
YEAR-END REPORTS							
CGE	BCG Appendices of the CGE report financial information on Autonomous institutions', Municipalities' and Public Enterprises.	Revenue, Expenditures, Financing	Cash, Debt, Financial assets, and information on tangible assets.	Cash	GFSM 1986, Administrative, Functional	Annual	More than 15 months after the end of the fiscal year. (2)
Fiscal Statistics	Budgetary central government	Revenue, Expenditures, Financing	Cash, Debt, Financial assets.	Cash	Economic (GFSM 1986, conversion to GFSM 2001 on-going)	2010, 2011 and 2012 fiscal statistics have been made available on the Ministry of Finance (MoF) website in end-2013.	
Debt Report	Budgetary central government	Debt interests and repayments	Debt	Not applicable.	Not applicable.	Annual	Last publication: 2013 (Debt report for 2012)

Source: IMF Staff

(1) Lag of publication and/or last publication available.

(2) The volume IV of the CGE (Inventory of State Assets) is not published.

1.1 Coverage of Fiscal Reports

1.1.1. Structure of the Public Sector (Not Met)

4. **In Mozambique, the legal definition of the Public Sector is not consistent with international standards.** The SISTAFE Law (9/2002) defines the scope of the public sector which includes the State's bodies and institutions (both at the central and local levels)[2], the autonomous institutions, the local government, and the public enterprises.[3] However, this scope is not fully defined and consistent with international standards, such as the IMF's Government Finance Statistics Manual (GFSM). While the law states that the public sector includes all state bodies and institutions, local governments, and state enterprises, it does not provides whether corporations created under private law that are owned and/or controlled by the State should be considered as state enterprises.

5. **The authorities' registers of public entities are not exhaustive**:

- For the purpose of compiling sector national accounts under the System of National Accounts (SNA) 1993, the INE had established a register of public entities; however it has not been updated since 2005.
- The National Directorate of the Treasury (DNT) also maintains a register of the public entities. It does not include the publicly–owned corporations. Furthermore, there is no procedure to ensure that the coverage of this register is exhaustive, and updated timely.
- The State Equity Holdings Management Institute (IGEPE) – a public entity under the oversight of the MoF - maintains a register of the State's shareholdings. However, no assessment of the State's control over the corporations in which it holds shares directly, or via another entity, has been undertaken to date. Furthermore, this register is incomplete, as the "free" shares owned by the State in concession projects are not reported.

6. **Based on the authorities' registers, a tentative list of entities within the central government, general government, and public sector has been compiled by Staff.** For the

[2] The decentralized State's bodies are the Provinces and Districts.

[3] The Municipalities Law (2/1997) defines the legal framework applicable to municipalities; the Public Enterprises Law (6/2012) provides the legal framework applicable to Public Enterprises. The legal framework applicable to other public autonomous entities, such as Institutions, Funds, and Services is set by *ad hoc* laws or decrees.

reasons mentioned above, this list is not exhaustive. However, Figure 1.1 provides a tentative overview of the public sector in Mozambique, which is structured as follows:

- The central government comprises (i) the Government units and (ii) at least 30 budgetary and extra-budgetary bodies, which, while legally established as Autonomous Institutions,[4] are not financially autonomous.

- The general government comprises (i) the central government; (ii) the Social Security fund of the INSS; (iii) the 53 Municipalities; and (iv) at least 36 Autonomous Institutions.

- The public sector comprises: (i) the general government; (ii) at least 44 non-financial Public Corporations;[5] (iii) at least 3 financial Public Corporations: Bank of Mozambique (BoM), the National Investment Bank (BNI), and the Mozambican Insurance Company (EMOSE). There are currently two types of Public Corporations controlled by the State in Mozambique: (i) corporations created under public law (Public Enterprises and State Enterprises) that are fully owned by the State; and (ii) corporations created under private law that may not be fully owned by the State. These public corporations operate in a very wide range of sectors (construction, communication, energy, transport, agriculture…).

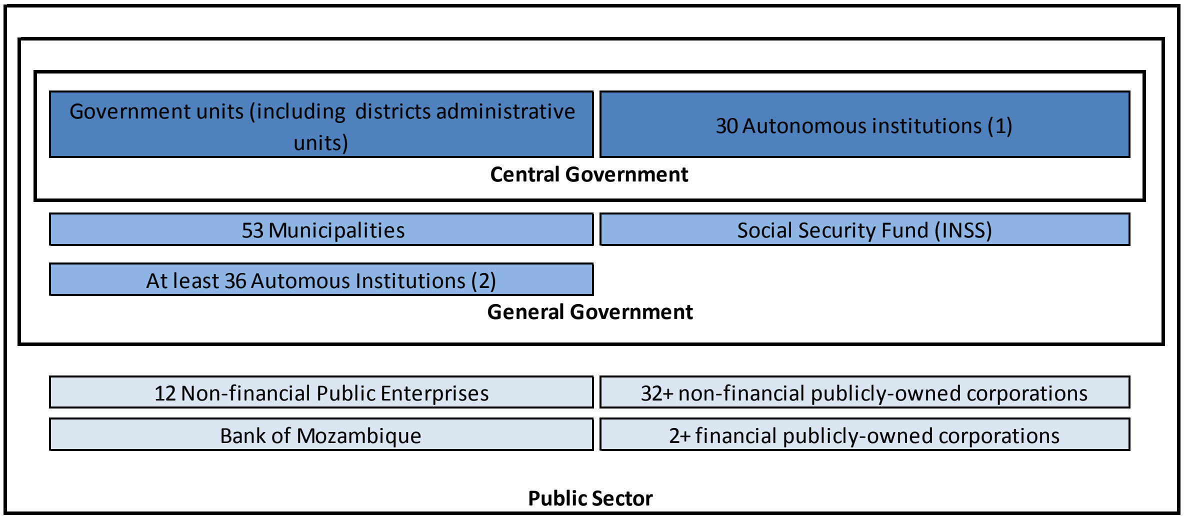
7. **However, the scope of the public sector is difficult to estimate in Mozambique.** As mentioned above, while the State's direct shareholdings are supposed to be inventoried by the IGEPE, the extent of the State's indirect shareholdings, or cross-shareholdings, is difficult to assess. For example, the company GIPS, created under private law in December 2011, was not reported in the inventory provided by the authorities, even if its shareholder is a public body: the social services of the State Intelligence and Security Services - SERSSE); as well, its subsidiary, EMATUM (Mozambican Tuna Company) is not reported in the inventories even if its shareholders are three State bodies.[6]

[4] This category of public entities includes Institutions, Funds, and Services created by law or decree.

[5] The IMF Staff list of non-financial public corporations includes the public corporations in which the State owned at least 50% of the shares, that is, based on the information made available by the authorities, 14 corporations created under public law and 32 corporations created under private law.

[6] The major shareholder is IGEPE, the public institute that manages and controls the State's investments portfolio, (34%), Emopesca, the State fishing company, (33%), and GIPS (33%).

Figure 1.1 Mozambique: Overview of the Public Sector, Based on Authorities' Inventories



(1) Institutions that do not finance at least two-thirds of their expenses with their own revenue are not considered as autonomous by the authorities.
(2) Institutions that finance at least two-thirds of their expenses with their own revenue are considered as autonomous by the authorities.

Source: IMF Staff.

1.1.2. Coverage of Institutions (Basic)

8. **Mozambique's main fiscal report, the CGE, consolidates the Budgetary Central Government, and provides financial information on public entities within the Central Government and General Government.** In compliance with the requirements of the SISTAFE Law, the expenses, revenues and financing operations of the Government, as well as financial information (opening balance, income, expenditures, and closing balance) of Autonomous Institutions that rely on State's transfers for more than ⅔ of their resources, are reported in the CGE. In addition, information on revenue and expenditure is provided for the majority of municipalities and for the public enterprises created by public law.

9. **Other public entities are legally required to establish stand-alone financial statements; however, these are not systematically available.** The Municipalities, the INSS, the autonomous institutions, and the Public Corporations should prepare financial statements in compliance with the requirements of their respective legal frameworks. However, the basis of accounting used for preparing these financial statements is not similar (for example, the Government reports on a modified cash-basis, while the publicly-owned corporations report on an accrual basis, see Table 1.2). Furthermore, in practice, these financial statements are not systematically prepared, nor are

they published or centralized at the MoF. In particular, the INSS has not published its financial statements since 2009, following an audit carried out by an international accounting firm that identified significant accounting flaws.

Table 1.2 Mozambique: Public Entities Annual Financial Statements

Category of Public Entities	Legal Framework of Financial Statements	Accounting Basis
Government units	SISTAFE Law	By law, modified cash. In practice, most expenditure is recorded on a cash basis.
Autonomous Institutions	SISTAFE Law and law or decree creating the entities(1)	By law, modified cash. Information not available about current practice.
Social Security Fund (INSS)	Law creating the entity	Accrual basis.
Municipalities	Law 2/1997, art.77	Modified cash.
Public Enterprises	Law 6/2012	Accrual basis (IFRS).(2)
Publicly-owned corporations (SA(3) or SARL(4))	Private Law	Accrual basis (IFRS and PGC-PE)(5), annual.

Source: IMF Staff

(1) The government is preparing a decree to harmonize financial reporting requirements for this category of public entities.

(2) International Financial Reporting Standards (IFRS).

(3) *Sociedades Anônimas* (SA).

(4) *Sociedades Anónimas de Responsabilidade Limitada* (SARL).

(5) *Plano Geral de Contabilidade para as pequenas empresas das* (PCG-PE).

10. **In this context, the consolidated fiscal situation at the general government and public sector levels cannot be assessed reliably; however, based on the available information, the IMF staff has established some broad estimates.** These estimates are based on figures reported in the 2012 CGE for the State, Autonomous Institutions, and available financial information on other public entities.[7] However, this information is very limited: (i) no information is publicly available on the financial operations of the social security fund and the autonomous entities, which are likely to be significant, and (ii) only partial information is available on the financial operations of public

[7] When possible, the impact of the transfers between public entities has been neutralized, and some restatements have been realized for narrowing discrepancies due to the use of different basis of accounting across the public sector.

corporations.[8] In this context, the IMF staff estimates show that, in 2012**,** public corporations would account at least for one third of public resources, and their assets and liabilities of the public sector would account at least for 43% and 37% of gross domestic product (GDP) (see Table 1.3 and Table 1.4).

Table 1.3 Mozambique: Estimates of the Distribution of Public Sector Resources

(Percent of GDP, 2012)

Sector	Number of entities	Revenue net from transfers	Expenditures net from transfers	Balance (net lending / borrowing)
		1	2	3 = 1-2
I.General Governement sector, aggregated		**29.7%**	**42.1%**	**-12.4%**
Central government, aggregated (1)	N/I	28.8%	41.0%	-12.2%
Social security Fund (INSS)	1	N/I	N/I	N/I
Autonomous institutions	At least 36	N/I	N/I	N/I
Local government	43	0.9%	1.2%	-0.2%
II. Public corporation sector, aggregated (2)		**14.6%**	**12.6%**	**1.3%**
1 *Non-financial Public Enterprises*	*14*	*5.4%*	*4.1%*	*1.3%*
2 *Non-financial Public Corporations*	*At least 32*	*6.6%*	*6.6%*	*0.0%*
3 *Financial Public Corporations*	*2*	*0.4%*	*40.0%*	*0.0%*
Public corporations (1+2+3, excl. BoM)	At least 48	12.4%	11.1%	1.3%
Bank of Mozambique (BoM)	1	2.2%	1.5%	0.7%
III. Public sector, aggregated (I +II)		**44.3%**	**54.7%**	**-11.1%**

Source: IMF staff estimates, CGE, IGEPE.

(1) Including Autonomous Institutions financed by the State's budget.

(2) Estimates established on the basis of a limited sample of available financial statements

N/I : not informed

[8] The financial statements of the publicly-owned corporations are collected annually by the IGEPE. However, some corporations do not communicate their financial statements timely, while others do not communicate them at all. In addition, no consolidation of this financial information is performed. Therefore, the IMF estimates have been calculated based on the most recent available financial statements of ten public corporations that show the most significant net worth and financial operations as at December 31, 2012. It is to be noted that these figures may evolve significantly for 2013. Indeed, in 2013, the Public Corporation EMATUM issued bonds on the Eurobond market for $850 millions. This means that the liabilities of the public sector could have increased by 6% of GDP, and may account for 43% of GDP.

Table 1.4 Mozambique: Estimates of the Distribution of Public Sector Assets and Liabilities

(Percent of GDP, 2012)

Sector	Number of entities	Assets	Liabilities	Net Worth
		1	2	3 = 1-2
I.General Governement sector, aggregated		**26.7%**	**41.0%**	**-14.4%**
Central government, aggregated (1)	N/I	26.7%	41.0%	-14.4%
Social security Fund (INSS)	1	N/I	N/I	N/I
Autonomous institutions	At least 36	N/I	N/I	N/I
Local government	43	N/I	N/I	N/I
II. Public corporation sector, aggregated		**43.4%**	**37.1%**	**11.6%**
1 *Non-financial Public Enterprises*	*14*	*13.3%*	*6.1%*	*7.2%*
2 *Non-financial Public Corporations*	*At least 32*	*6.8%*	*4.9%*	*1.9%*
3 *Financial Public Corporations*	*2*	*2.1%*	*1.0%*	*1.1%*
Public corporations (1+2+3, excl. BoM)	At least 48	**22.2%**	**12.0%**	**10.2%**
Bank of Mozambique (BoM)	1	**21.2%**	**25.1%**	**1.5%**
III. Public sector, aggregated (I +II)		**70.0%**	**78.1%**	**-2.8%**

Source: IMF staff estimates, CGE, IGEPE.

(1) Including Autonomous Institutions financed by the State's budget.

N/I: not informed.

1.1.3. Coverage of Stocks (Basic)

11. **The CGE includes information on the Budgetary Central Government's cash position, debt, and financial assets.** While the SISTAFE Law requires that the financial and property assets and liabilities of the State be reported in the CGE, the available information on assets and liabilities is in practice limited to the cash balances,[9] debt,[10] and financial assets. A list of the State's shareholdings, and information on the State's tangible assets, are nevertheless provided in appendices. However, as discussed in section 1.4.4, the reliability and understandability of the information provided in the CGE is to be improved.

12. **Assets and liabilities that are currently not reported are likely to be significant.** They include:

[9] The cash balance is split between the *Conta Unica* (treasury single account), *recebedorias* (tax collection offices), *outras contas da Tesouraria* (other central Treasury accounts), and *outras contas do Estado* (other state accounts, outside the central Treasury). The IT system, e-SISTAFE, effectively controls and reconciles the TSA but not the other accounts.

[10] In addition to the information provided in the CGE, the annual report on the public debt that is prepared by the DNT provides detailed information on the external and internal debt balances, annual variation and composition, as well as a very brief analysis of debt sustainability.

- **Liabilities** related to :

    i. **Obligations under long-term contracts,**[11] in the context of 4 130 investment projects (including concessions arrangements) already approved by the government, of which 2,884 are currently implemented (see section 3.2.7).

    ii. **Public service pension schemes,**[12] which are administered by the *Previdência Social* (see section 3.3.4). It is to be noted that at least two Public Corporation, Bank of Mozambique and Radio Mozambique, also have liabilities related to employees benefits (including pensions), that amounted respectively to 2,469 and 814 millions of meticals (MT) in 2011 (on a net basis).

    iii. **Refundable taxes,** mainly refundable value-added tax (VAT) (debt estimated at 6.2 billions of MT as at December 31, 2012 and at 8.5 billions of MT as at June 30, 2013, or approximately 2 percent of GDP, see Figure 1.5).

    iv. **Expenditure arrears**, such as those related to fuel subsidies. Based on the IMF staff estimates, these arrears could amount to 623 millions of MT.

- **Tangible assets** related to :

    i. **Infrastructures**, which have been developed intensively during the last years: in Mozambique, public capital expenditure exceeded 10 percent of GDP in 16 out of the past 20 years (see Figure 1.2).

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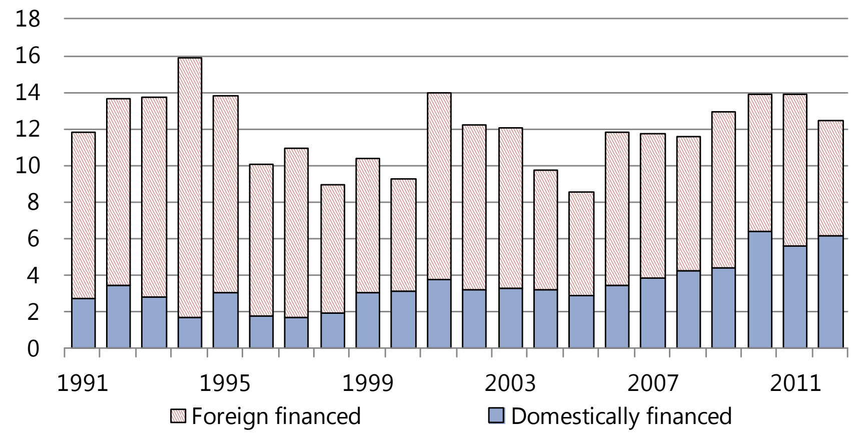
[11] The international public sector accounting standards (IPSAS) defines liabilities as "present obligations of the entity arising from past events, the settlement of which is expected to result in an outflow (…) of resources (…)". When a government has committed to perform payments to the benefit of a private sector company under a long-term contract, these amounts or part of them may have to be reported as liabilities, or as contingent liabilities. An IPSAS also establishes the accounting and reporting requirements for governments as regards concession arrangements, which are arrangements that involve the private sector participation in the development, financing, operation and/or maintenance of assets used to provide public services. In general, concession arrangements will imply the recognition of a liability, which nature will depend on how the government compensates the private sector operator.

[12] Under IPSAS, pensions and other retirement benefits provided in exchange for services rendered by employees under formal or informal arrangements and legislative requirements are recognized on an accrual basis. This involves the recognition of a liability and expense when the employee has provided the service in exchange for retirement benefits to be paid in the future. Cash payments to retirees reduce the liability. Applying these principles, the benefits under the *Previdência Social*, being available to qualified retired and current government employees as part of their employment conditions, should be recognized as liabilities.

ii. **Land and subsoil assets**, in the context of the recent discovery of important hydrocarbon resources (however these assets should be recognized only if their valuation is considered reliable enough).

Figure 1.2 Mozambique: Public Capital Expenditure
(Percent of GDP, 1991-2012)

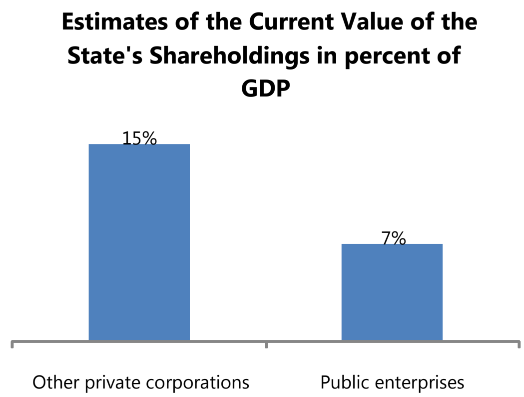


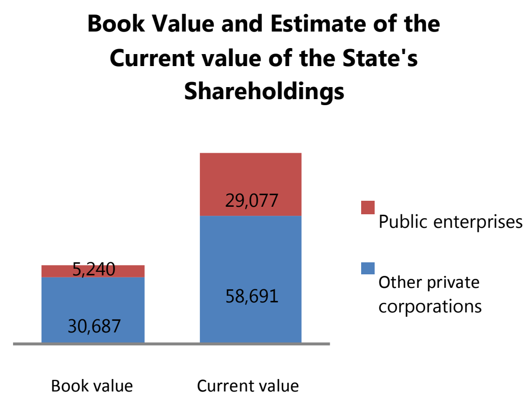
Source: IMF, authorities.

13. **The State's shareholdings reported in the CGE should be evaluated at their current value.** The State's direct shareholdings in public corporations are reported at book value in the CGE. Based on IMF staff estimates, Figure 1.3 shows that their value is therefore significantly undervalued, and that their current value would account at least for 22 percent of GDP.[13]

[13] The estimates are realized based on a sample of 5 public enterprises and 11 publicly-owned corporations that amount to 27 percent of the total book value of the State's shareholdings reported in the CGE. On this sample, the equity value of the companies has been calculated based on their latest financial statements and compared to the book value reported in the CGE in 2012. The equity method is a method of accounting whereby the investment is initially recognized at cost and adjusted thereafter for the post-acquisition change in the investor's share of net assets/equity of the investee. The surplus or deficit of the investor includes the investor's share of the surplus or deficit of the investee (source: IPSAS7). It is to be noted that a number of discrepancies between the information reported in the CGE and the information available in the financial statements have been identified (relating to the shares held by the State, or the shares' value).

Figure 1.3 Mozambique: Estimates of the State's Shareholdings Current Value





Source: IMF staff estimates, IGEPE.

1.1.4. Coverage of Flows (Basic)

14. **Mozambique's consolidated fiscal reports are established on a cash basis, and cover flows related to revenue, expenditure, and financing.** While basic information is provided in the CGE, the cash flow coverage could be improved:

- Capital gains or other exceptional revenue deposited at the Central Bank are recorded as revenue in the government's accounts when transferred to the Treasury Single Account (TSA). This was the case recently for an exceptional capital gain tax amounting to approximately 0.1 percent of GDP.

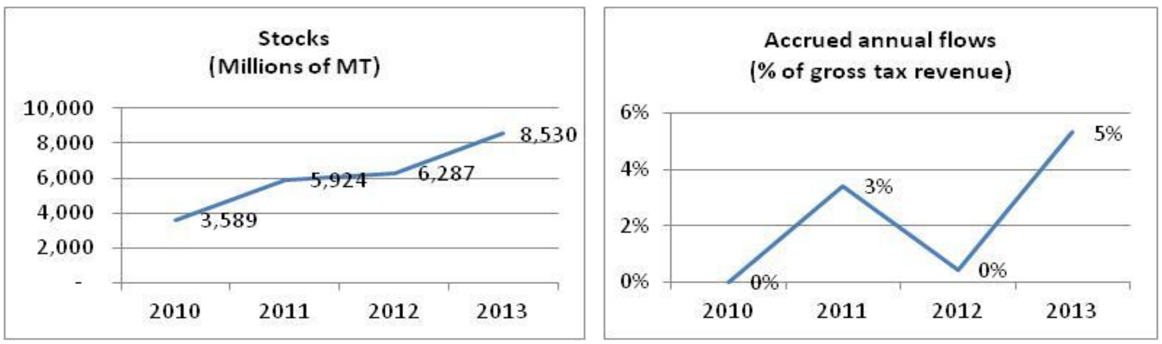
- Some of the tax revenue collected by the tax administration is recorded in the financial system with a significant delay, due to difficulties to break down and classify amounts collected.

- Some expenses and revenues are not captured in the in-year accounts, and are re-integrated at year-end through manual input of data. They include own and earmarked revenues of some bodies and autonomous institutions that are part of the budgetary central government, and externally financed projects. The completeness of this year-end reintegration is difficult to assess.

15. **Accrual flows are not captured in the consolidated fiscal reports.** Most of these flows are linked to the changes in value of assets and liabilities that are also missing in the consolidated fiscal reports. These could include, for example:

- The annual gross variation on current receivables and payables (e.g., tax liabilities, see figure 1.4).
- The valuation changes on the Government's holdings of financial assets.
- The annual net accrual of the public service pensions liabilities.

Figure 1.4 Mozambique: Liabilities Related to Refundable VAT (2010–13)



Source: IMF staff, Tax Authority, CGE 2011 and 2012.

1.1.5. Tax Expenditures (Basic)

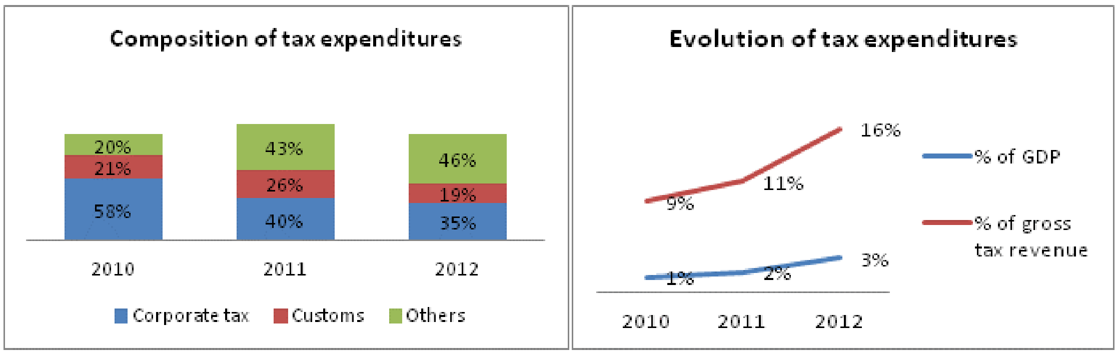
16. **Mozambique's tax expenditures are reported annually in the CGE but more substantial analysis and information is needed**. Tax expenditures are authorized by law. The annual consolidated fiscal report includes a summary of tax revenue losses, estimated by type of tax. They amounted to 3 percent of GDP in 2012 (see Figure 1.5). In the context of an increased number of investment projects and an expected boom of fiscal revenue related to gas and oil production, the value of the tax expenditures is expected to rise in the coming years. However, the information provided in the CGE is limited to date :

- It does not include a breakdown by sector or policy area.
- The methodology used to determine their value, the legal basis supporting exemptions, and the budgetary goals and targets for tax expenditures defined by the government are not disclosed.

- While the main expenditures are related to imported goods, very little information and analysis is provided in the CGE. Also, the information on tax expenditures related to investment projects is scarce.

In addition, VAT refunds are currently wrongly reported as tax expenditures.

Figure 1.5 Mozambique: State's Tax Expenditures Reported in the Financial Statements (2010–12)



Source: IMF staff, CGE 2011 and CGE 2012.

1.2 Frequency and Timeliness of Fiscal Reporting

1.2.1. Frequency of In-Year reports (Good)

17. **In-year cash-based budget execution reports and fiscal statistics reports are produced and published on a quarterly basis :**

- Quarterly budget execution reports are produced and published within 45 days of the end of each quarter. They include (i) budget execution rates for expenditures presented by economic and functional classifications, (ii) execution rates for central, provincial, district and municipal levels, (iii) revenue collection rates, (iv) adjustments to the revenue forecast, and (v) the revised total expenditure and deficit, when supplementary budgets have been approved ;

- Quarterly fiscal statistics reports are based on the budget execution reports and prepared in the GFSM 1986 statistical format. They are published between 15 to 30 days after the publication of the budget reports.

1.2.2. Timeliness of Annual Financial Statements (Not met)

18. **The CGE is published seventeen months after the end of the fiscal year.** The stages leading to its release include: (i) five months to prepare the CGE; (ii) six months to submit the external auditor's report to the Parliament; (iii) about six months for deliberations on the report and the approval of the CGE by the Parliament. While the time to prepare the CGE is reasonable, its publication date is not in line with international good practices.[14]

19. **The ongoing Government's accounting reform should improve the timeliness and reliability of the annual financial statements.** Part of a broader set of public financial management (PFM) reforms, the public accounting modernization aims at: (i) improving reliability and timeliness of the financial reporting at all levels of government; and (ii) implementing accrual accounting, based on international standards, by 2025. One of its outcome, according to the authorities, should be to make the CGE (as well as the audit opinion) available to the Parliament before the end of September of the following year.

1.3 Quality of Fiscal Reports

1.3.1. Classification (Good)

20. **Administrative and economic classifications, as well as a functional classification based on the classification of the functions of government (COFOG), are used in the fiscal reports**. Program classification is used in the budget to present expenditures of six priority programs.[15] The introduction of this classification started in 2008 through pilots in priority sectors (e.g., agricultural extension, infrastructure, and education). While it has been extended and used in the budget proposal since 2009, it is still at its early stages and it is not being used for budget reporting.

21. **The government is committed to use a new economic classifier for revenues from concessions and sales of assets as of the 2014 budget**. This commitment results from a recommendation in the audit report on the 2011 CGE. So far, comparability between the budget and the annual financial statements has been ensured. The revenue classification distinguishes

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[14] According to Fiscal Transparency Code, an advanced practice would be to publish audited or final CGE within 6 months of the end of the financial period, a good practice would be to do this within 9 months, and a basic practice to do it within 12 months.

[15] 2013 revised budget, Mapa E, p. 798.

domestic and external resources. Domestic revenues include recurrent and capital, the former being further disaggregated by tax and non-tax.

22. **The government is preparing changes to fiscal statistics classification**. Fiscal statistics and annual financial statements are cash-based. The implementation of the GFSM 2001 standards started in 2012. The 2010, 2011, and 2012 cash-based fiscal data have already been converted to comply with the standards set by the GFSM 2001. However, at the time of the mission, only the 2010 data were published. 2011 and 2012 data were published at the end of 2013.

1.3.2. Data Consistency (Basic)

23. **While the FTC calls for three internal consistency checks to be regularly verified and published,[16] only a basic reconciliation is disclosed in the fiscal reports.** The tables and appendixes presented in the CGE are numerous, and reconciliation of the figures is complex. However, the 2012 annual financial statements include a reconciliation of the overall balance with the financing.[17] In addition, a consistency check on cash balances[18] is undertaken.

24. **No consistency check between the CGE and the monetary accounts of the Bank of Mozambique (BoM) is realized and published to date.** The coverage of the BoM's monetary accounts and the CGE is not consistent (for example, the INSS Deposits and Loans are both recorded in the monetary accounts as Central Government Deposits and Credit, while they are not included in the CGE), which makes consistency check difficult to undertake. However, this would be necessary, as, for example, at December 31, 2012, the cash deposits recorded in the monetary accounts for the Government amounted to 73,250 millions of MT, while the cash deposits reported in the CGE amounted to 21,673 millions of MT. To improve the situation, the Ministry of Finance and BoM have committed in conducting a review of the accounts of those State entities and institutions not covered by the State Budget and CGE but included in the monetary accounts, with a view to including explanatory notes and reconciliations in the CGE.

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[16] The FTC calls for the following consistency checks to be verified and published : (i) balance and financing ; (ii) debt issued and debt holdings, which is usually done by comparing debt office's debt figures with central bank's private sector asset figures, and (iii) financing and change in debt stock.

[17] CGE 2012 mapa I-1, p. 70.

[18] Cash balances are comprised of the following groups of accounts: (i) *Treasury Single Account*; (ii) *Tax Collection Posts* (*recebedorias*); (iii) *Other Treasury Accounts*; and (iv) *Other State Accounts*.

25. **Other consistency checks are performed.** They aim at insuring a fairly good degree of consistency between the various fiscal reports: (i) the overall balances reported in the CGE and the fiscal statistics are consistent; and (ii) the debt figures reported in the CGE and the Debt Report show only a minor discrepancy. Furthermore, fiscal reports' quarterly figures add up to annual figures, as quarterly reports are adjusted, if needed, to match the annual figures.

1.3.3. Historical Consistency (Not applicable)

26. **No historical revisions to fiscal statistics have been undertaken yet according to the information provided by the authorities.** A fiscal statistics database was set up in 2011. Since then the quality and consistency of the data has been checked and updated every year with external assistance but the published statistics do not show any historical revisions. Annual fiscal statistics published in the Ministry's of Finance website cover the period 1998 to 2012 whereas the quarterly data is from 2007 up to the second quarter of 2013. Any material revisions to historical data regarding new information on the government finances—in particular on accounting errors uncovered by the auditor, specific government's transactions or sector delimitation—should be incorporated in future statistical reports and explained to ensure a useful, consistent, and accurate time-series.

1.4 Integrity of Fiscal Reports

1.4.1. Statistical Integrity (Basic)

27. **Fiscal statistics are produced and disseminated by the Department of Planning and Statistics (*DPE*) of the Ministry of Finance, which is not independent.** The FTC calls for the responsibility for verifying and disseminating fiscal statistics to be vested in a specific body that is independent. This used to be the case in Mozambique, as the INE, an autonomous government agency, was in charge of establishing fiscal statistics. However, since 2012, the responsibility of the fiscal data production and dissemination was delegated to the DPE. Therefore, the production of fiscal statistics in Mozambique is not undertaken in line with international good practices.[19]

[19] According to Fiscal Transparency Code, as regards the verification and dissemination of fiscal statistics, an advanced practice would be this to be the responsibility of a professionally independent body, a good practice would this to be the responsibility of an autonomous government agency and a basic practice would be this to be the responsibility of a specific government ministry.

28. **The regulatory environment for the compilation and dissemination of fiscal statistics is fairly clear.** The DPE is part of the DEAE and its role and responsibilities were formalized in 2012 through the 94/2012 Internal Regulations for the Directorate. The devolution of the INE's responsibilities to the DPE was formalized in a memorandum of understanding, which aims at insuring that the INE's professional standards for establishing statistics are followed by the DPE.

1.4.2. External Audit (Good)

29. **The Administrative Tribunal of Mozambique (*Tribunal Administrativo, TA*) is independent of the executive, according to the Constitution,**[20] **and provides an audit opinion on the CGE.** The CGE is audited by the TA. Currently its opinion focuses mainly on the legality of budget execution, but also includes comments on the reliability of information, the budget performance and provides detailed conclusions and recommendations. The TA does not express an opinion on whether the financial statements present a true and fair view. This audit report is transmitted to the Parliament and is published in the website of the Tribunal after the deliberations by the Parliament. A summary for citizens of the audit on the 2009 CGE has also been published.

30. **The Tribunal also performs financial audits on the accounts (*contas de gerencia*) of a selection of public entities.** The accounts are verified, and when errors and irregularities are significant they are audited and judged. The TA is a Supreme Audit Institution based on the judicial model. The members of the TA are independent magistrates. If they deem the transactions they review as legal, they have the power to discharge public accountants from further liability. They have also the power to impose penalties or fines on audited officials. According to the Tribunal, more than 450 audits are performed annually, based on an audit plan. However, these reports are not published.

31. **As part of the accounting reform mentioned above, the Tribunal is revising its audit methodologies to meet international standards.** While no timetable has been communicated to the mission, the objective is to incorporate the first set of International Standards for Supreme Audit Institutions (ISSAI) issued by the International Organization of

[20] As part of the judiciary, the TA and judges' independence are guaranteed by the articles 292 and 217 of the Constitution.

Supreme Audit Institutions (INTOSAI) in 2010.[21] Moreover, the quality of the Tribunal's audit processes is reviewed by the African Organization of Supreme Audit Institutions (AFROSAI) every two years.

1.4.3. Statistical dissemination (Basic)

32. **Mozambique is participating in the IMF's General Data Dissemination System (GDDS)[22] since 2003**. Participation in the GDDS is open to all Fund members, whereas the Special Data Dissemination Standard (SDDS) is intended for member countries having or seeking access to international capital markets. The GDDS is less prescriptive than the SDDS, which prescribes specific standards that must be observed by countries that subscribe to it. The GDDS provides recommendations on good practice for the production and dissemination of statistics (generally less demanding than the corresponding requirements of the SDDS), but the emphasis is on progress, over time, toward higher quality data that are disseminated more frequently and in a more timely fashion.

1.4.4. Reliability of Financial Statements (Not met)

33. **At the Budgetary Central Government level, the accounting principles are based on the provisions of the SISTAFE Law.** The SISTAFE Law establishes a mixed accounting system comprising accrual-basis accounting for expenditure and cash-basis accounting for revenue. These principles, however, are not fully applied as most expenditures and revenues are recorded on a cash-basis, and the commitments were not reported in the last published year-end financial statements (CGE 2012). As noted above, the ongoing Government's accounting reform should help improving the timeliness and reliability of the annual financial statements.

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[21] The first set includes ISSAI level 1 on Founding Principles and ISSAI level 2 on Prerequisites for functioning of Supreme Audit Institutions. The level 3 on Fundamental auditing principles has only been adopted in October 2013 by INTOSAI.

[22] Participation in the GDDS by IMF member countries is voluntary. It requires that a country undertakes three actions relative to the system, and participation depends on completion of the following actions: i) Commitment to using the GDDS as a framework for the development of national systems for the compilation and dissemination of economic, financial, and socio-demographic data; ii) Designation of a country coordinator to work with IMF staff; and iii) Preparation of metadata, using the Data Quality Assessment Framework (DQAF) format, to be disseminated by the IMF on the Dissemination Standards Bulletin Board (DSBB), on (a) current statistical compilation and dissemination practices; and (b) plans for short- and medium-term improvements in each of the four dimensions of the system. http://dsbb.imf.org/images/pdfs/gddsguide.pdf

34. **Concerns on the reliability of the CGE have been noted over the last years by the external auditor.** While the Administrative Tribunal of Mozambique noted some progress on the quality of the financial information, it has identified, in its most recent audit report, several concerns on completeness and reliability of the financial information provided in the 2011 CGE.

35. **The reliability of the financial statements of the other public entities cannot be exhaustively assessed.** As mentioned above, the financial statements of some public entities, as well as the auditors' reports are not systematically published.

1.5 Summary

36. Table 1.5 summarizes the quality of Mozambique's fiscal reporting relative to the standards set by the *Fiscal Transparency Code* as well as the relative importance of each area. Chapter IV includes a series of recommendations for how fiscal reporting can be enhanced in these areas by clarifying the institutional boundaries, expanding the institutional coverage, expanding the coverage of the balance sheet, and improving accounting standards.

Table 1.5. Mozambique: Summary Assessment of Fiscal Reporting

Principle		Assessment	Importance	Rec
1.1	**Structure of the Public sector**	**Not Met:** Noregistry of public sector entities consistent with international practices.	**High:** The public sector boundaries are not known; at least 48 public corporations may belong in public sector, representing at least one third of the PS resources.	1
1.2	**Coverage of Institutions**	**Basic:** The CGE reports on all central government entities.	**High:** INSS and some autonomous entities are outside of the fiscal reports (no quantification available).	1
1.3	**Coverage of Stocks**	**Basic:** The CGE Fiscal reports cover cash and all debt.	**High:** Most of the State's assets and liabilities are not reported and/or not evaluated at their current value (incl. shareholdings representing around 22% of GDP).	2
1.4	**Coverage of Flows**	**Basic:** Fiscal reports cover cash revenues, expenditures and financing.	**Medium**: The coverage of flows can be improved by expanding the coverage of the institutions and the stocks (see above).	
1.5	**Tax Expenditures**	**Basic:** The estimated revenue loss from tax expenditures is published at least annually.	**Medium:** Information and analysis on tax expenditures shall be detailed (TE have increased from 1% to 3% of GDP in the last 3 years, and are likely to increase further in the future).	
2.1	**Frequency of In-year Fiscal Reports**	**Good:** In-year fiscal reports are published on a quarterly basis, within a quarter.	**Low:** In-year reports are timely.	
2.2	**Timeliness of Annual Financial Statements**	**Not met:** CGE sent within 5 months to TA but the published within 17 months of the end of the financial year.	**High:** Audited outturn too late to inform the preparation of the next year's budget.	2
3.1	**Classification**	**Good:** Fiscal reports include an administrative, economic, and functional classification consistent with international standards as well as information on receipts from all major revenue sources, including resource related activities.	**Low**	
3.2	**Data Consistency**	**Basic:** The fiscal reports include reconciliation between the balance and the financing.	**Low**: Lack of internal consistency checks may result in a lack of reliability of the fiscal reports (minor discrepancy on Debt figures)	
3.3	**Historical Consistency**	**Not Applicable**		
4.1	**Statistical Integrity**	**Basic:** Verification and dissemination of fiscal statistics are the responsibility of specific government ministry.	**Medium:** Statistical integrity is supported by limited safeguard (delegation of responsibilities).	
4.2	**External Audit**	**Good:** There is a supreme audit institution, independent of the executive, which audits the annual financial statements and reports its findings to the legislature and the public.	**Low:** The Administrative Tribunal independence is granted by the Constitution's provisions related to the Judiciary Power	
4.3	**Statistical dissemination**	**Basic**: Fiscal statistics meet GDDS.	**Medium:** Participation in SDDS should be considered when access to international capital markets will become significant.	
4.4	**Reliability**	**Not met:** The requirements of SISTAFE are not fully met.	**High**: The current accounting reform should improve the reliability of financial statements.	2

FISCAL FORECASTING AND BUDGETING

2.0 Introduction

37. **In most countries the budget, prepared by the government and approved by the parliament, is the single most important fiscal document, receiving high levels of public and international attention.** The budget sets out the government's fiscal objectives and policies, demonstrates how those policies will impact public finances, and seeks the legislature's approval for the proposed levels of taxation, expenditure, and financing. It is therefore important that fiscal projections and budgets are based on credible forecasts of macroeconomic developments and other parameters that have an impact on revenue and expenditure, provide comprehensive information on the government's aggregate fiscal objectives and budgetary plans, are presented in a way that facilitates policy analysis and accountability, and are submitted with sufficient time for the parliament to scrutinize and approve them before the fiscal year begins.

38. **The budget process in Mozambique is comprehensively regulated by the SISTAFE Law and its subsequent regulations.** They set the rules and procedures for the preparation, approval, and execution of the State budget. This comprehensive legal framework ensures consistent classification and presentation of expenditure and revenue, and defines devices to ensure central controls over the government's finances. Budgets at all levels of government are generally comprehensive, the lack of information related to the social security fund, which collects social contributions, being a notable exception. The draft budget of the State is presented to Parliament in September and published at the same time.

39. **A defining feature of budgeting in Mozambique is its openness and accessibility.** All the main budget documents are published and available on Internet, including the draft budget and the Medium Term Budget Framework (MTBF or CFMP[23] in Portuguese). Efforts are made to provide summarized information to the citizens.

40. **This commitment to openness could be further strengthened through improvements of the policy orientation of the budget documentation.** Fiscal forecasts and budgets could be presented in a way that facilitates policy analysis and accountability. The objectives of the fiscal

[23] *Cenário Fiscal de Médio Prazo.*

policy could be explicitly summarized by setting numerical objectives for the main fiscal aggregates. In addition, in the medium-term, the introduction of program budgeting may support a stronger linkage between policy and resource allocations and increase accountability. A summary of the main macro-fiscal forecasting and budget documents is presented in Table 2.1.

Table 2.1. Mozambique: Macroeconomic, Fiscal Forecasting and Budget Documents

Report	Content	Author
Documento de Fundamentação do Orçamento do Estado, 2014	Annual budget statement. Reviews international and domestic conditions, sets out macroeconomic forecasts, revenue and expenditure estimates and financing requirements	MoF
Lei Orçamental, 2014	Annual appropriations law passed by parliament	MoF
Documento de Fundamentação da Proposta da Lei do Orçamento do Estado, 2014	Annual budget proposal summary submitted to parliament.	MoF
Cenário Fiscal de Médio Prazo, 2014–16	Medium term budget framework. Provides comprehensive historical, current and projected estimates of public finances.	MPD/MoF
Programa Quinquenal do Governo, 2010–14	Five-year development strategy. Articulates government's economic objectives.	MPD
Plano Económico e Social, 2014	A statement of government's economic and social policies in the medium term	MPD
Estratégia Nacional de Desenvolvimento	National development strategy	MPD
Medium Term Debt Strategy, 2012–15	A statement of strategic action to guide debt management, taking into considerations risks and sustainability.	MoF
Visão das Finanças Públicas, 2011–25	A fifteen year vision of public finances which includes alternative scenarios	MoF
Debt Sustainability Analysis, 2013	DSA prepared annually by Mozambique authorities	MoF

41. **This chapter assesses the quality of Mozambique's current fiscal forecasting and budgeting practices relative to standards set by the IMF *Fiscal Transparency Code*.** It focuses on four main areas:

i. the comprehensiveness of the budget and associated documentation;

ii. the timeliness of the budget and its approval;

iii. the policy orientation of budget documentation; and

iv. the credibility of the fiscal forecasts and budget proposals.

2.1 Comprehensiveness of Budget Documentation

2.1.1 Budget Unity (Good)

42. **Budget documentation incorporates all revenues, expenditure, and financing[24] by central government ministries, agencies and extra-budgetary funds.** The annual budget law covers revenue and expenditures of 25 ministries, 11 provinces, 128 districts, 43 municipalities, and 14 public enterprises. The budget provides a breakdown of all expenses, including expenses related to national security and military intelligence. There are no secret items in the budget.[25]

43. **The revenues and expenditures of the national Social Security Fund are not included in the budget documentation.** The provisions of the SISTAFE law[26] that require their presentation in a specific annex of the annual budget have not been implemented.

2.1.2 Gross Budgeting (Basic)

44. **Domestic tax revenue, external resources and related expenditures are presented in the budget documentation on a gross basis in accordance with the provisions of the SISTAFE Law**.[27] The annual budget law presents all tax revenues including the VAT. The VAT refunds are presented as expenditures, although these are not expenditures. The authorities are committed to present the VAT on a net basis from the 2015 budget onwards, according to best international practices. The budget also includes external funds both grants and loans. Information on budget support, pool funds for line ministries and projects on-budget are reconciled by the Ministry of Finance with information from development partners. Although coverage has increased, a number of grants for projects, including in kind, are not yet covered in the budget, mainly in the area of health.

[24] The total financing is included at least in Table A of the budget law (Equilíbrio Orçamental).

[25] On the 26 Sub-Saharan African countries assessed in the 2012 Open Budget Survey only Mozambique, South Africa and Namibia present a budget with a share of secret items inferior to 1 percent.

[26] Article 24.4.f.

[27] Article 13.1.e.

45. **Although a large portion of non-tax revenue is included in the budget, there is still no exhaustive coverage of own-generated revenue[28] that is collected by the institutions for a specific service delivery.** A 2010 MoF Circular set up rules for improving timeliness of these revenue recording in budget execution reports. They include deadlines for their classification and recording. Regarding budget preparation, the Budget and Planning Directorates exclude internal revenue from the ceiling for sector programming. As a consequence, a significant increase was noted in collection of own-generated revenues in 2012 and 2013. However, a minority of this revenue is still executed directly by the institutions, without being transferred to the TSA and reported in the budget documentation.

2.1.3. Macroeconomic Forecasts (Basic)

46. **The budget documentation includes forecasts of key macroeconomic variables but does not disclose the underlying assumptions.** The main budget document reviews both global and domestic economic conditions and developments, using the IMF World Economic Outlook as a reference point to provide context for the macroeconomic forecasts, though no detailed explanation is made about the variables, the underlying assumptions or risks to the forecasts.

47. **Mozambique's budget projections are based on simple macroeconomic forecasts of four variables produced by various agencies**. The key variables are real GDP growth rate, nominal GDP, exchange rate and inflation rate as proxy for the GDP deflator.[29] Though the exchange rate featured in earlier budget documents, it has not been explicitly referred to as a projection item since 2011 as the authorities do not want to influence the financial markets operators. It is used however in forecasts, especially of external financing. The Department of National Planning (DNP) prepares real GDP growth rate, the Bank of Mozambique prepares exchange rate forecasts and an inflation target as part of its annual monetary program, while the DNO prepares the nominal GDP projection from its financial modeling program based on IS-LM model assumptions.

48. **Forecast of main fiscal aggregates rely principally on nominal GDP and inflation, with real GDP growth providing context for real expectations**. Nominal GDP is used to forecast tax

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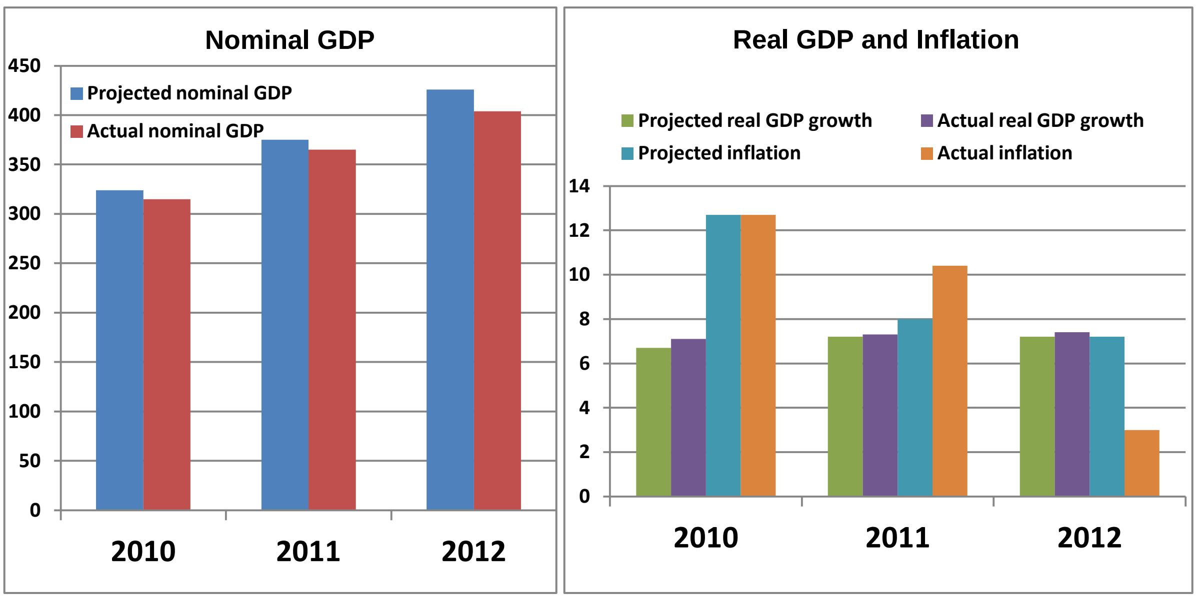
[28] Budget Law includes a breakdown of own revenues by the central, provincial and district levels and the list of institutions that collect own revenue is included in the quarterly Budget Execution Reports, Map I-1, although a minority of this revenue is extra-budgetary.

[29] The exchange rate is not included in officially published documents but is included in the modeling.

revenues. Inflation generally forecasts the growth of some recurrent expenditure items, though in reality most of the projections assume a fixed percentage increase over prior year values, and are often only marginally correlated with inflation. Capital expenditure, which constitutes about a third of total expenditure, is driven by policy objectives, mostly from the Five Year Plan, and external financing commitments.

Figure 2.1. Mozambique: Main Macroeconomic Aggregates: Projection versus Outturn, 2010–12



49. **When actual and projected data are compared (Figure 2.1), projected nominal GDP is consistently above actual GDP, pointing to possible upward bias in revenue forecast**. Real GDP growth, which is not directly linked to the projection of any fiscal aggregate, shows the least deviation from actual of any of the variables. Deviation of actual and projected inflation is not as systematic as that of nominal GDP.

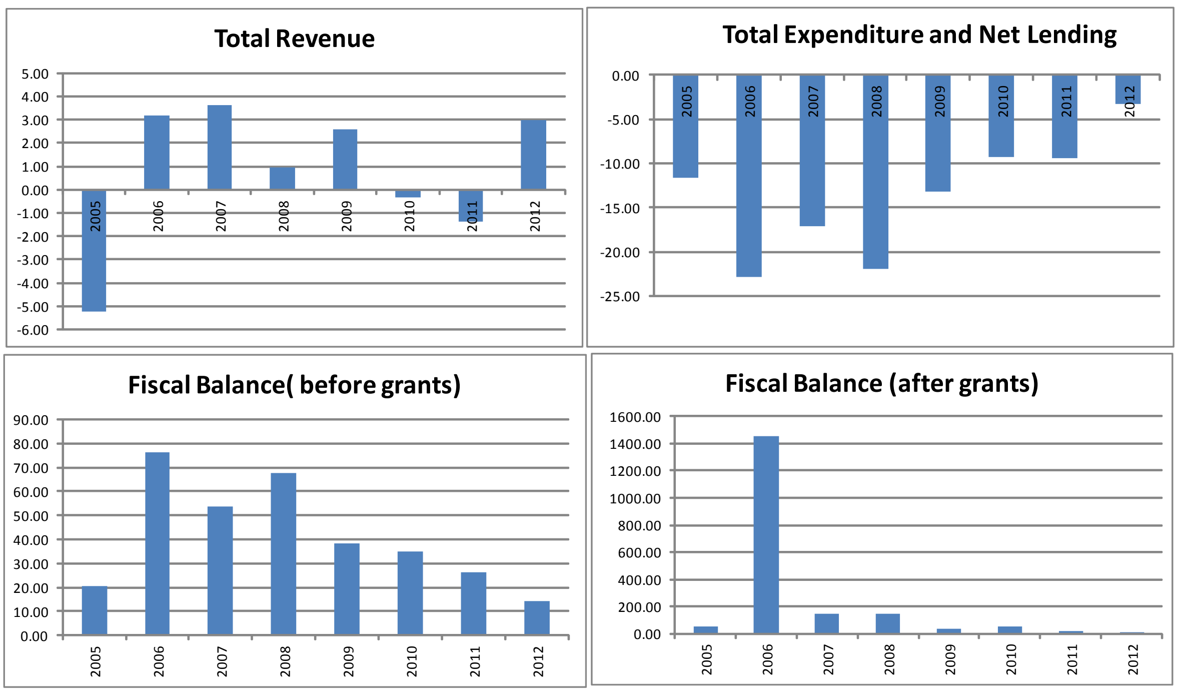
2.1.4. Medium-Term Budget Framework (Advanced)

50. **The MTBF covering the period 2014–16 provides a more comprehensive and detailed 3-year budget perspective**. The first CFMP approved by the Council of Ministries covered the period 2007–09. The framework draws its objectives mainly from the 5-year government plan, the *Plano Quinquenal do Governo* (PQG). The framework includes projections of revenue, expenditure, and financing by economic classification, and by program, at the central, provincial, and district

levels. It also includes transfers to municipal level. It covers the three-year forward and provides budgetary outturns of the two preceding years. Information on forward plans is provided at the same level of detail for all years. Revenue is classified by collecting entity and revenue type, while expenditure is classified by organizational unit, function, economic category, and program. A section analysis the potential risks to the achievement of the projections. These include deviation from macroeconomic assumptions, global developments, including on exchange and interest rates, and unanticipated domestic developments requiring emergency actions.

Figure 2.2: Mozambique: Forecast Errors of Fiscal Aggregates, 2005–11

(in percent of original forecast)



Source: Mozambique authorities and IMF Staff estimates.

51. **While the framework provides a road map for the government's intentions in the medium term, expenditure and program discipline is not strong.** Revenue forecast has on average been better than forecast, and forecast errors—which measure the difference between forecast and outturn—have not shown gradual decline over time. Large revisions to expenditures occur mainly due to insufficient disbursement of externally funded projects, but also because of forecast errors and mid-term changes in government's objectives. During the period 2005–12, expenditure outturn has on average been 14 percent lower than the initial estimate in the preceding year, mostly on account of lower than budgeted capital expenditure implementation. The large

errors in revenue and expenditure forecasts limit the effectiveness of the planning and budgetary processes. This problem could be magnified in the medium term as Mozambique's natural gas sector takes off, and unanticipated revenue becomes the norm. The adoption of a fiscal rule could contribute to a stronger fiscal discipline, especially in the context of unexpected revenue collection such as capital gain taxes.

2.2 Timeliness

2.2.1 Fiscal Strategy Report (Basic)

52. **The quarterly budget execution report, *Relatório de Execução do Orçamento* (REO), describes the macroeconomic and fiscal developments since the budget approval and macroeconomic and fiscal changes for the current year.**[30] The REO includes a section[31] that discusses the budget balance and how to maintain this balance despite of macroeconomic changes. For instance, the report for the period January-September 2013 mentions the revision of GDP forecast for the current year, from 8.4 percent to 7 percent, resulting from the macroeconomic impact of the floods.

2.2.2 Budget Submission (Advanced)

53. **The legislature and civil society have adequate time to scrutinize the annual budget before the start of the financial year.** The provision of the SISTAFE Law providing that the annual budget should be tabled to the National Assembly before September 30 is enforced. The draft annual budget is also made available to the public at the same time.

Table 2.2. SADC countries: Timeliness of Budget Submission

	At least 3 months	At least 6 weeks but less than 3 months	Less than 6 weeks
Angola		x	
Botswana		x	
Malawi			x
Mozambique	x		
Namibia			x
Rwanda			x
South Africa			x

[30] See *Relatorio de Execucao do Orcamento, REO*, Jan-Sep 2013, p. 7.

[31] Section 2, *Equilibrio Orcamental*, p. 7.

Tanzania			x
Uganda			x
Zambia	x		
Zimbabwe		x	

Source: Open Budget Survey 2012, IMF Staff.

2.2.3 Budget Approval (Good)

54. **The budget law is approved and published by the start of the financial year.** The annual budget is approved before the 15th of December, in accordance with the provisions of the SISTAFE Law.

Table 2.3. Mozambique: Dates of Budget Legislation Approval for Fiscal Years 2012 to 2014

Fiscal Year	Date of Approval by the Parliament
2012	December 15, 2011
2013	December 14, 2012
2014	December 13, 2013

Source: Budget laws for 2012, 2013 and 2014.

2.3 Legal Framework

2.3.1 Legal Framework (Advanced)

55. **The constitutional and legal frameworks clearly define the role and responsibilities of the government in the area of public financial management.** Overall, the legal fiscal and budget framework is clearly defined and consistent with advanced international practices. The Constitution, the SISTAFE Law (9/2012), and the SISTAFE Regulation (Decree 23/2004) define the government's powers with respect to fiscal policy making, budget preparation and execution, accounting, and internal audit. The respective powers of the government's branches regarding public finance are clearly set out in the Constitution. The Parliament[32] has competency to deliberate on the Economic and Social Plan (PES), and approve the budget and the CGE that are prepared by the government. It also discusses the government five-year plan (PQG) at the start of the legislature. The Parliament

[32] Article 179 of the Constitution.

shall not table any bill that, directly or indirectly, involves an increase in expenditure or reduction in the government revenues, or that in any way alters the outcome of the fiscal year currently underway.[33] The judiciary branch, which includes Mozambique's Supreme Audit Institution, the TA, prepares its own budget proposals using the same budgeting mechanism as other public entities. The TA is responsible to scrutinize the budget execution and audit the CGE. The organic law on administrative jurisdiction (25/2009) and the law on the Third Chamber of the Administrative Court (26/2009) regulate the functions of the TA.

2.3.2 Revenue Collection (Good)

56. **Laws and regulations related to revenue collection are comprehensible and accessible.** The Constitution and the Tax Law (15/2002) clearly define taxpayers' rights and obligations. They have in particular access to a well-functioning appeals process. In the first instance, the head of the tax collection unit has to review any claim formulated by a taxpayer. This decision could be submitted for reconsideration to the Legal Directorate, inside the Revenue Authority. In the third instance, the Fiscal Tribunal, which is part of Administrative Tribunal, will take the final decision. Access to information could be further improved however through the publication of up-to-date guidance to taxpayers on how to meet their rights and obligations.

2.4 Policy Orientation

2.4.1 Fiscal Policy Objectives (Not met)

57. **A number of fiscal policy objectives are defined by the government for the main fiscal aggregates, but it does not regularly reports on these.** The *Vision of Public Finances 2011–25* defines a set of fiscal objectives and their targeted value for four years long periods, until 2025. The CFMP presents objectives in terms of revenues and expenditure projections from 2014 up to 2016 and set the objective of maintaining public wages at 10 percent of GDP yearly and to allocate 67 percent of investments to priority programs of the Poverty Reduction Strategy.[34] In addition, the government has set an objective of increasing annually domestic revenues by ½ percent of GDP as part of a strategy to reduce dependency on external revenues. However, the government does not explicitly report on whether the targets have been met on each of these fiscal objectives.

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[33] Article 183 of the Constitution.

[34] CFMP 2014–16, p. 33.

2.4.2 Performance Information (Basic)

58. **The budget documentation provides information on the government's inputs on priority sectors.** The annual budget presents the budgeted aggregated envelope for each priority sector, and information is provided in the CGE on aggregated expenses incurred on each one of these. To facilitate policy analysis, information on expenses incurred should be disaggregated according to the economic classification (i.e., salaries, goods and services, transfers, subsidies). In addition, performance indicators are not defined in the budget documentation.

59. **Efforts are ongoing towards a performance orientation of the budget but a program-based budgeting is still under development.** Program-based classification of the entire budget began in 2011, but the quality of the objectives, goals, and performance indicators of the programs and subprograms is not yet uniform. The CFMP (2014–16) shows only the allocations of investment resources by the strategic programs of the Poverty Reduction Strategy. None of the budget documents provides results or outputs on the priority sectors, linking the budgetary resources to the projections in the PES.

2.4.3 Citizens' Guide to the Budget (Basic)

60. **The government has published in the Ministry of Finance's website budget proposal summaries for citizens since the 2012 budget.** The first summary of the budget proposal (*Proposta Orçamento Cidadão 2012*) was published in February 2012, after the approval of the 2012 budget by the Parliament whereas the 2014 summary has been published in October 2013 when the budget proposal was submitted to the Parliament. This third budget proposal summary includes economic assumptions, expenditure level proposed against the level of the previous year, revenue forecast with information on revenues from the natural resources activities, expenditures in poverty reduction priority sectors and efforts in the social protection area. To further improve the accessibility of budget information for the public, the document could use a simpler terminology. Information on the financial impact of major policies on different income population groups would also contribute to better inform the public.

61. **Another welcome development is the citizens' summary on the audit report of the 2009 CGE prepared by the Supreme Audit Institution (*Tribunal Administrativo*).** This is a complementary useful document that presents the audit findings, provides non-technical explanations, and summarizes the 600 pages of the annual financial statements. It was published for

the first time in November 2012 (i.e., six months after the publication of the annual financial statements and of the audit report). Going forward, it should be systematically published at the same time as the CGE.

2.4.4 Fiscal Sustainability Analysis (Basic)

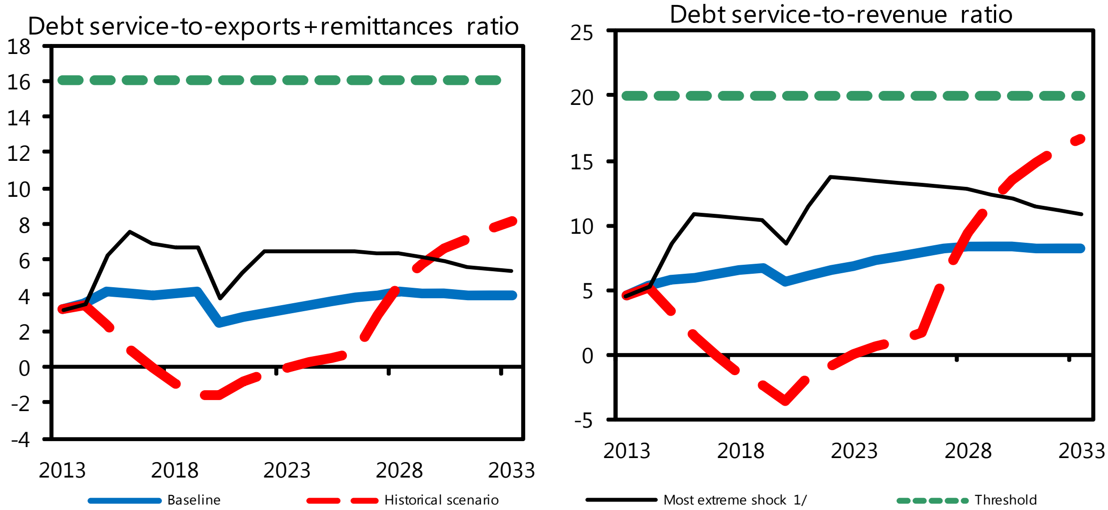
62. **The projected evolution of the main fiscal aggregates over the long-term are published, but ranges between 15 and 20 years and discusses a limited number of scenarios.** Two documents forecast the evolution of the main fiscal aggregates using different scenarios:

- The *Vision of Public Finances* 2011–25 was prepared by the Ministry of Finances, using as context, the broader 2025 Vision (*Visão 2025*), a statement of economic objectives and aspirations. The Public Finance Vision 2011–25 discusses 15 year projections of main fiscal parameters that would concretize the objectives of the vision. The evolution of revenue, expenditure, financing and deficit/balance are first presented in baseline scenario for 2012–25. In addition, two alternative scenarios for public finances are discussed. In one scenario, domestic revenue is gradually decreased in rates of 20 percent to 10 percent of the previous budget year. Another scenario increases internal revenue in rates of ½ percent to 0.1 percent of GDP of the respective year.

- The Debt Sustainability Analysis (DSA), prepared by the Ministry of Finances analyses the evolution of public debt under different scenarios and is updated annually in the context of the annual budget preparation. The DSA covers a 20 year horizon, but scenarios are standard and could usefully include more variety to assess the impacts of the risks that Mozambique's public debt faces. Annual updates of the DSA are published, but with some delays.

63. **While the Vision 2025 is a good starting point, a time frame of 15 years is short, the range of assumptions driving the projections is limited, and it has not been updated since its publication.** A limited time frame means that some of the profound changes to the economy, expected in the medium term, are not captured. In addition, a 20–30 year time frame, based on robust scenarios could capture the long term implications for Mozambique's fiscal sustainability of the expected long-run changes to the extractive industry sector, and its impact on public finances. In addition, more sophisticated scenarios could show more clearly the risks arising from the expected change in the economy.

Figure 2.3. Mozambique: Evolution of Public Debt Under Different Scenarios



Sources: Mozambique authorities and IMF Staff estimates and projections.

2.5 Credibility

2.5.1 Independent Evaluation (Not Met)

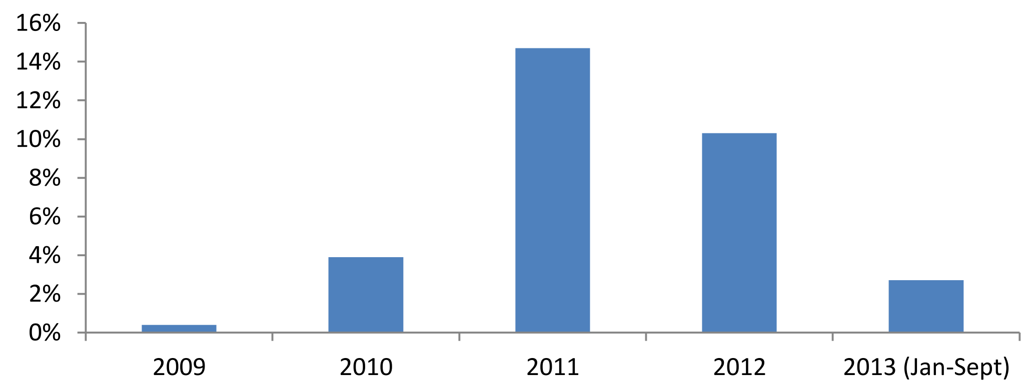
64. **There is no independent scrutiny of macroeconomic and fiscal forecast.** The budget documentation provides only one set of forecasts and there is no specific entity responsible for assessing their credibility. An independent evaluation should be implemented to check the macroeconomic and fiscal assumptions of the CFMP, and the developments during the year. The impact of fiscal assumptions changes in the budget and the need to revise the budget law should also be checked during the independent evaluation.

2.5.2 Supplementary Budget (Good)

65. **The SISTAFE Law provides that increases of the overall original budget should only be authorized by law**. In accordance with the article 34-1 of the SISTAFE law, "*any ceiling set in the national budget may be amended only by law, based on a duly substantiated proposal of the government*". The SISTAFE Law provides that increases of the overall original budget should only be authorized by law. The annual budget law allows for increases of the overall budget expenditure in cases where collections exceeds budget revenue, and only for specific categories of expenditure

(debt reduction, priority investment projects and deficit reduction). Changes in the expenditure composition do not require the legislature's approval. The article 34-2 of the SISTAFE Law allows the government to increase appropriations, within the limits of the national budget, through the use of provisional appropriations (contingencies provision) defined by the article 13-3. In addition, the Law authorizes the Government to redistribute appropriations according to limits established by the Parliament: i) budget allocation could be transferred from any objective to another; ii) resources could be reallocated within the same1 institution; and iii) resources could be transferred from one institution to another in case they are no longer needed by the first one. Every year, the Council of Ministers approves a decree defining competencies of central government entities to redistribute appropriations.

Figure 2.4. Mozambique: Supplementary Budgets
(Percent of original expenditures)



2.5.3 Forecast Reconciliation (Not met)

66. **The quarterly budget execution report (*Relatório de Execução do Orçamento*, REO) compares the current and previous macroeconomic forecasts, but does not explain the impact of new policy measures.** The REO compares forecasts used to prepare the budget and the macroeconomic developments during the year at the end of each quarter. As mentioned before, the last report (Jan–Sep 2013) relates the 2013 GDP forecast decrease, from 8.4 percent to 7 percent, because of a macroeconomic shock due to floods. Nevertheless, it is necessary to clarify changes in forecast caused by new government actions included in the projections and from others sources.

2.6 Summary

67. Table 2.4. summarizes the quality of Mozambique's fiscal forecasting and budgeting against the standards set by the *Fiscal Transparency Code* as well as the relative importance of each area. Chapter 4 includes a series of recommendations for how fiscal forecasting and budgeting can be enhanced to provide a more comprehensive and credible picture of short, medium, and long-term fiscal prospects.

Table 2.4. Mozambique: Summary Assessment of Fiscal Forecasting and Budgeting

	Principle	Assessment	Importance	Rec
1.1	**Unity**	**Good:** Budget documentation incorporates all revenues, expenditure, and financing by central government ministries, agencies and extra-budgetary funds.	**Low:** The Administrative Tribunal independence is granted by the Constitution's provisions related to the Judiciary Power	
1.2	**Gross Budgeting**	**Basic:** All tax domestic and external revenues and associated expenditures are presented on a gross basis.	**Low:** Gross basis budget is generally an enforced legal provision.	
1.3	**Macroeconomic Forecast**	**Basic:** The budget documentation includes forecasts of key macroeconomic variables.	**High:** Few variables disclosed but not explained. Need to anticipate the natural resource boom.	**3**
1.4	**Medium-Term Budget**	**Advanced:** Budget documentation includes medium-term projections of revenues, expenditures, and financing by economic category and by ministry	**Low:** The quality of the forecasts is to be improved to minimize the forecast errors with more robust scenarios.	
2.1	**Fiscal Strategy Report**	**Basic:** REO summarizes major changes affecting budget execution	**Medium:** Comprehensive set of fiscal targets to be developed alongside fiscal rules to manage the expected natural resource revenue	
2.2	**Budget Submission**	**Advanced:** The budget is submitted to the legislature 3 months before the start of the financial year.	**Low:** Allows sufficient time for budget debate	
2.3	**Budget Approval**	**Good:** The budget is approved by the start of the financial year.	**Low:** The budget is approved on time	
3.1	**Budget Legislation**	**Advanced:** Comprehensive legal framework	**Low:** The legislation clearly defines the budget procedures	
3.2	**Revenue Collection**	**Good:** Laws and regulations are comprehensive and accessible, and include appeals process.	**Low:** A taxpayers' guide could further increases compliance	
4.1	**Fiscal Policy Objectives**	**Not met:** The government does not regularly reports on a numerical objective for the main fiscal aggregates.	**Medium:** Comprehensive set of fiscal targets to be developed alongside fiscal rules to manage the expected natural resource revenue	
4.2	**Performance Information**	**Basic:** Program budget is under development.	**Medium**: Develop the information on inputs acquired under each major policy, at least for expenditure in priority sectors.	
4.3	**Citizens' Guide to the Budget**	**Basic:** Government provides an accessible description of recent fiscal performance and economic prospects	**Low**: Budget proposal summaries available but need to be written in accessible terms.	
4.4	**Fiscal Sustainability**	**Basic**: The projected evolution of the main fiscal aggregates is published, but ranges between 15 and 20 years and discusses a limited number of scenarios.	**Medium:** Need to increase frequency of update and publication and to include assumptions about natural resource using alternative scenarios.	
5.1	**Independent Evaluation**	**Not met:** No external assessment of forecasts	**Low:** The increase of natural resource will require robust forecasts	
5.2	**Supplementary Budget**	**Good:** A supplementary budget is required prior total expenditures exceeds budgeted amounts.	**Low:** In 2012 the budget was revised with an increase of 10% from the approved budget with Legislative approval.	
5.3	**Forecast Reconciliation**	**Not met:** Differences between the successive vintages of the government's revenue, expenditure, and financing forecasts are shown at the aggregate level, but a qualitative discussion of the impact of new policies on the forecasts is missing.	**Medium:** The budget documentation disclose and explain differences between original forecasts and new ones.	

FISCAL RISK ANALYSIS AND MANAGEMENT

3.0 Introduction

68. **Fiscal risks are factors that cause fiscal outcomes to differ from forecasts.** They include uncertainty about the evolution of fiscally-important macroeconomic variables such as growth, inflation, commodity prices, and unemployment. They may also arise from specific sources such as calls on government guarantees, tax disputes and other litigation, and changes in the value of government's assets and liabilities. A government's ability to cope with fiscal risks depends on the quality of information about risks, its ability to limit its exposure to risks that can be mitigated, and its capacity to absorb the fiscal consequences of risks that cannot be mitigated.

69. **Fiscal risks are relatively high and diverse in Mozambique.** GDP growth and government revenues are volatile, primarily due to Mozambique's susceptibility to exogenous shocks from global economic conditions and natural disaster. The recent discovery of substantial deposits of hydrocarbon has spurred several major and multi-annual projects that will create a dynamic extractive industry sector, which will make medium-term fiscal forecasting and policymaking even more challenging. Mozambique's state-owned enterprises are also a source of significant fiscal risk, especially those in which the State owns shares and operate under the oversight of IGEPE. Mozambique's public finances also face additional fiscal pressures from quasi-fiscal activities, and a defined benefits pension system that could prove challenging for future public finances.

70. **The degree of disclosure and active management of these risks is generally low, which is a common situation among low-income countries.** The government fiscal reports do not discuss in detail how fiscal outcomes might differ from forecasts as a result of macroeconomic or specific risks. Long term frameworks are yet to include assumptions about the impact of volatile oil and gas revenues in their assessments, and even though many large infrastructure projects with multi-annual contracts are mentioned in budget documents, there is no robust analysis or detailed disclosure of public rights and obligations. There is no strategy addressing specific risks arising from state-owned enterprises, other contingent liabilities or quasi-fiscal activities. However, the PFM legal framework mandates comprehensive information about the fiscal conditions of subnational governments, and fiscal data is generally comparable over a range of reports.

71. **Fiscal policy should be credible, predictable, transparent, and sustainable to help the government manage risks effectively.** By increasing the quality of information on fiscal risks,

transparency builds support for prudent fiscal policies, promotes better policy actions, and leads to better risk mitigation. For all the stakeholders, disclosure strengthens confidence and credibility in public sector accounts and in the sustainability of fiscal policy.

72. **This chapter assesses the adequacy of Mozambique' fiscal risk analysis and management practices relative to the IMF *Fiscal Transparency Code* in three areas:**

i. general arrangements for disclosure and analysis of macroeconomic and specific fiscal risks;

ii. risks emanating from specific sources such as the government's assets and liabilities, guarantees, other financial exposures, long-term contracts, and financial derivatives; and

iii. coordination of fiscal decision-making between the central government, the social security system, local governments, and public corporations.

Table 3.1: Mozambique: Selected Reports Related to Fiscal Risks

Report	Aspect of Fiscal Risk Discussed	Author
Cenário Fiscal de Mediano Prazo (MTEF) 2014–16	Provides comprehensive current and projected information about the fiscal conditions of central government	MPD
Debt Sustainability Analysis (2012) [(1)]	Analyses risks related to external public debt (but does not include publicly guaranteed debt)	MoF
Visão das Finanças Publicas 2011–25	Includes analysis of sensitivity of projections to different assumptions about revenue.	MoF
OE 2010 – OE 2014 Budget Laws	Provides information about the guarantee limits, subsidies, fiscal positions of public enterprises, subnational governments	MoF
Documento fundamentação OE 2009–14	Provides information about the priorities of the government for the next year	MoF
BoM Annual Report 2011–12	Provides assessments on the financial sector	BoM
Contingency Plan and Emergency Liquidity Assistance	Provides legal framework for the financial support of BoM in emergencies	BoM
Financial Sector Development Strategy 2013–22	Provides priorities for financial stability and inclusion	MoF
Master Plan for Disaster Prevention and Mitigation (*Plano Director para Prevenção e Mitigação de Calamidades*)	Provides medium term actions for the prevention of the effects of natural disasters	Council of Ministers
The Health Sector Strategy 2012–16	Provides priorities for health sector	MISAU
Budget Law—Table A *Mapa de Equilibrio Orçamental* for financial years 2011, 2012, and 2013 Budget Proposal for 2014—Table A *Mapa de Equilibrio Orçamental* (not approved yet)	Allocate contingencies provisions in the budget of respective financial year.	Proposed by Executive Approved by Legislature

[(1)] The DSA was updated in 2013 for preparing FY14 budget but was not published.

3.1 Risk Disclosure and Analysis

3.1.1. Macroeconomic Risks (Basic)

73. **Mozambique, like many small open economies, faces a wide range of macroeconomic risks, but published fiscal reports provide limited information on these risks:**

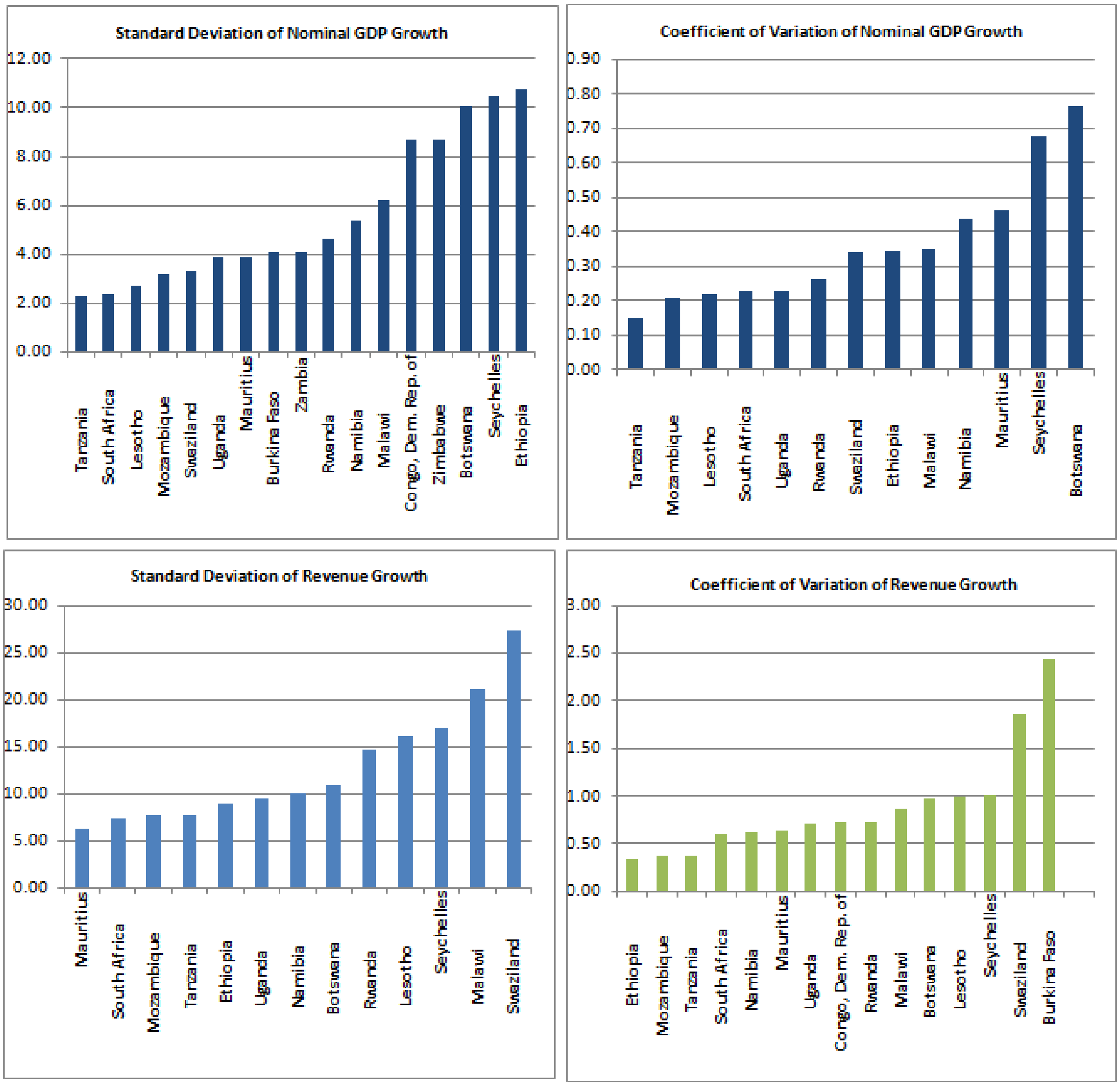
- The introductory section of the annual budget discusses global developments, but it is not directly related to the risks to forecasts that may result from changes in the macroeconomic environment.

- Medium term documents, such as the CFMP, do not explicitly report on possible changes to forecasts as a result of different macroeconomic shocks, but they now recognize that risks do exist.

- The DSA includes a quantitative discussion and some illustrative quantification of the impact of a wide range of developments on the evolution of public debt. However, it does not provide a fully quantified set of alternative fiscal outcomes or forecasts.

74. **Macroeconomic volatility is likely to become a major source of fiscal risk in Mozambique.** In high growth economy like Mozambique, GDP can be difficult to forecast because of limited information about the economy. High growth economies are indeed prone to wide swings in growth, and these eventually feed into projections of revenue. In Mozambique, in addition, economy is likely to become more and more diverse and open, with a natural resource boom. The authorities will therefore need to assess macroeconomic risks in more detail in the future. Notwithstanding, so far, Mozambique fared relatively better during 2005-2012 when compared to other Sub-Saharan Africa (SSA) countries.

Figure 3.1 Indicators of Macro-fiscal Risks in Selected SSA, 2005–12



Source: IMF, World economic Outlook database, October 2012.

Note: The coefficient of variation is the standard deviation of a variable divided by its mean.

3.1.2. Specific Fiscal Risks (Basic)

75. **Mozambique's fiscal operations face a variety of specific risks, a few of which are recognized in recent fiscal reports, but not fully quantified.** These include risks from contingent liabilities, those related to the government's assets and liabilities, interest and exchange rate risks that could affect the cost of financing and debt service, and environmental risks. Risks from donor financing is also significant since more than 10 percent of the government revenues is accounted for by grants from donors. The DSA discusses risks to debt sustainability from a variety of risks, including interest and exchange rates, while the most recent CFMP provides a brief context to how changes in the certain assumptions may affect fiscal outcomes.

Table 3.2. Mozambique: Selected Specific Fiscal Risks, 2013

	Percent of GDP	Millions of $	Source
Public enterprises external debt guarantees	0.45	67	2012 Public Debt Management Report
EMATUM publicly guaranteed external debt	5.65	850[(1)]	
Subsidies to public enterprises	0.17	26	2013 budget proposal
Price subsidies (Wheat flour, transportation, and fuel)	0.52	78	2013 budget proposal
Major and Multi-annual Contracts	33.14	4,984	2014-16 MTEF
Natural disasters (total average cost of 2013 damages)	3.32	500	Plan for Mitigation of Natural Disasters
Total quantified risks	43.25	6,505	

Other sources of fiscal risks not quantified: Quasi fiscal activities, Public private partnerships, Public Sector Pension liability, VAT arrears that are not reported in fiscal documents, unreported expenditure arrears, and exposure to the volatility of donors financing.

[(1)]Following the reintegration in the national budget of $350 million of EMATUM debt, the guarantee granted by the government has been reduced to $500 million as of January 1, 2014.

3.1.3. Comparability of Fiscal Data (Basic)

76. **Fiscal reports are broadly comparable.** The budget statement is prepared on the same basis than the Medium Term Expenditure Framework. Data and presentation in the CGE are also comparable to the budget document.

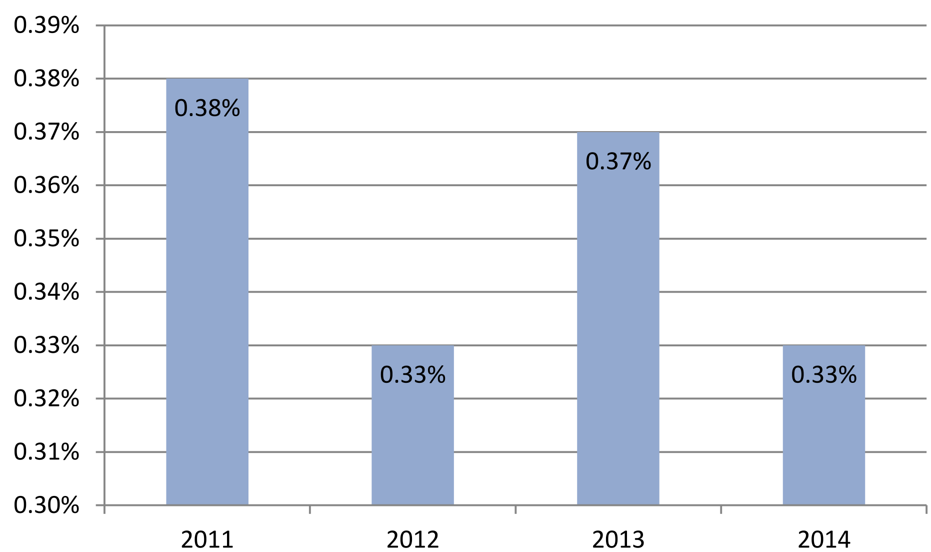
77. **Nevertheless, budgetary outturns are not reconciled with either the fiscal statistics or final accounts.**

3.2 Risk Management

3.2.1. Allowances for Budgetary Contingencies (Basic)

78. **Mozambique's budget includes a limited provision for contingencies, but with no clear access criteria.** The SISTAFE law gives to the Minister of Finance the power to use the provisions for contingencies, under the condition that these resources be used for the execution of expenditures that cannot be foreseen or postponed. However, no transparent criterion on the use of budgetary contingencies is set out. Additionally there is no report, in-year or year end, that explain the rationale for their use, except for aggregated information on the transfers made to other budget lines. The contingent reserve appears in general expenses, under the category "Provisional appropriation" included in "Other current expenses". It represents about 0.35% of total budget expenditure for the period 2011–14.

Figure 3.2. Mozambique: Budget Contingencies Provision, 2011–14 (Percent of Central Government Budget)



Source: Table C of 2014 Budget proposal and Budget law for 2011, 2012, and 2013.

3.2.2. Assets and Liability Management (Basic)

79. **The authority to borrow, including limits and ceilings, are set by laws for the State and municipalities, but not for other public entities.** The current situation is as follows :

- State borrowing is authorized by the annual Budget Law, which stipulates rules on domestic borrowings. These rules include (i) limits on the interest rate; which cannot exceed the medium interest rate observed on the national market; and (ii) on loan term, which is set at a minimum of 3 years. Regarding external borrowing, the specific consideration is to maximize concessional debt. The 2013 annual budget law also sets an annual ceiling of MT183 million (about $6 million) on State guarantees. The $850 million guarantee granted to the EMATUM corporation in 2013 (reduced to $500 million in 2014) breached this annual ceiling.

- The municipalities can borrow in accordance with the provision of the law 1/2008 on the subnational governments financial system.

- Regarding the other public entities, in particular corporations in which the State holds shares, no specific legal provisions apply, neither is any specific authorization necessary. The Ministry of Finance is, however, drafting a law that will clarify the legal requirements applying to these entities.

80. **The Debt Report, which is released annually, analyses the central government's domestic and external debts.** The current debt management strategy of the government is focused on ensuring debt sustainability, maximizing use of concessional funding and limiting domestic financing at the lowest level. However, the strategy and oversight on public sector's other financial debts, such as leases and public–private partnerships (PPPs), which are arrangements that typically involve commitments similar to borrowing, and on financing guarantees, is unclear. For example, some public entities do not have to get approval to enter into financial leases.

81. **Some information on the government's financial assets is published but the public assets management strategy is not disclosed.** The State's public enterprises are overseen by the Ministry of Finance. The State's majority or minority shareholdings in publicly-owned corporations are managed by the IGEPE, an autonomous agency: some very broad objectives for managing the government's portfolio are defined in its annual report. The oversight on the local governments' public enterprises is not clearly set up. The Government's and MoF's oversight on the creation, acquisition and disposal of government financial assets is limited as the law on public enterprises applies to only the 14 public enterprises and not to participations held in private corporations. Furthermore, little information is available to date on the fiscal risks surrounding these assets. No analysis is provided on the State and local governments' public enterprises, or the shareholdings of

the autonomous institutions. Regarding the shareholdings managed by the IGEPE, an annual report provides comments on the activities of some of the corporations. However it does not include a comprehensive analysis of their financial operations or the potential financial risks related to these investments.

3.2.3. Natural Resources (Not Met)

82. **Natural resources exploitation is an increasing source of economic growth and revenue for Mozambique.** While coal resources have already been exploited for a number of years, recent discoveries of large off-shore natural gas deposits, as well as on-going exploration of petroleum resources are likely to transform Mozambique into a major resource-rich country over the next few years. These explorations and the production of natural resources are managed mainly via concessions, or other arrangements, granted to the private sector.

83. **The government publishes limited information on the value of its natural resources and the related current and projected fiscal revenue.** Although considerable efforts have been made to increase the transparency of fiscal information on the extractive sector, through the publication of the major Exploration and Production Concession Contracts (EPCC)[35] negotiated between the government and contractors, and collected revenue, information available to the public is still limited. In particular, the government does not publish any estimates of the volume and current value of its natural resources. The main information available to date is the following:

- The CGE provides a breakdown of the fiscal revenue related to mega-projects (which includes natural resources production), which amounted to only 1 percent of GDP in 2012, but there is no comprehensive report disclosing information on the volume and/or current value of Mozambique's natural resources reserves.

- Mozambique is a member and complies with the rules of the Extractive Industries Transparency Initiative (EITI). Four EITI reports have been already drawn up for the period between 2008-2011, which cover all the active mining companies and oil that pay a certain level of taxes.

[35] Each EPCC celebrated between the government and the contractors includes detailed information regarding the respective fiscal regime.

- Regarding the forecasts of natural resources revenue, the "*Vision of Public Finances 2011-2025*" includes rough estimates of the fiscal revenue related to coal and gas production and the CFMP provides estimates of the fiscal revenues related to coal production. However, the information is limited. For instance, the underlying assumptions of the forecasts and the different risk scenarios that were considered (in relation to long-term commodity prices, extraction capabilities, or quantity of supply contracts for example) are not disclosed.

84. **Unknown size of gas reserves and potential fiscal revenue underline the volatility of any projection.** Mozambique is now one of the countries with the world's largest proven natural gas reserves, and recent reports of geological surveys indicate that total gas reserve in two areas of the Rovuma basin alone could reach 150 trillion cubic feet.[36] In this context, management of fiscal risks will become more complex as the natural resources revenues become a substantive part of government revenue. This complexity results from issues related to the volatility and exhaustibility of this category of revenues.

3.2.4. Financial Derivatives (Not Applicable)

85. **There are no financial operations with derivatives at the time of the assessment.** Nevertheless, the Government may need, in the coming years, to consider the benefits and risks related to the implementation of hedging strategies. To smooth the volatility of the price fluctuation of natural resources, the government may enter into financial contracts to guarantee a certain price, or minimize down-side price realizations.[37]

3.2.5. Guarantees (Not Met)

86. **The government does not report on the outstanding stock of government guarantees.** The Mozambique's legal framework authorizes the government to grant guarantees. The Ministry of Finance is responsible for approving these guarantees, which can include loan, minimum revenue, and balance sheet guarantees. Therefore, public enterprises and other public institutions asking for the government guarantee have to submit a feasibility study to the relevant line ministry, and the Ministry of Finance. The 2014 budget contains a provision which sets a cap of around $526 million

[36] In this context, a *Gas Master Plan for Mozambique* was prepared in March 2013 by the Petroleum Governance Initiative in cooperation with the authorities.

[37] See the report "*Mozambique - Fiscal Framework Considerations for the New Resource-Rich Environment*", Fiscal Affairs Department, IMF, January 2013.

for guarantees and, since 2014, the Debt Report includes information of the annual flows of guarantees granted by the government. However, there is limited information on existing guarantees and their management policy, and the stock of government guarantees is not published.

87. **Given the limited information available, it is difficult to quantify Mozambique's gross exposure arising from guarantees granted.** While a ceiling for the issuance of new guarantees is included in annual budget laws, no policies exist regarding the assessment of projects or potential beneficiaries. Similarly, no procedures or policies are in place regarding the assessment or monitoring of financial risks associated with guarantees that had already been granted. Considering the recent and expected ramping up of infrastructure investment projects, significant increase in borrowing is projected. Since some of the projects are to be implemented through public enterprises, the government may be required to guarantee or provide on-lend financing to State-owned enterprises. From a debt sustainability perspective, if obligations on related governmental liabilities fall due at the same time, this could pose risks to both fiscal and debt sustainability, and potentially require additional financing.

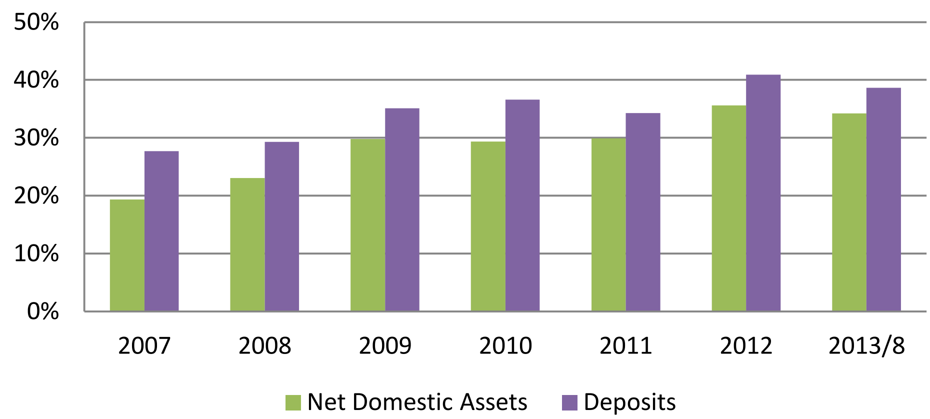
3.2.6. Financial Sector Exposure (Not Met)

88. **Exposure to the financial sector is not quantified and disclosed annually.** The government has direct exposure to the financial sector through its public financial institutions and insurance company. In addition, a Deposit Insurance Fund (FGD)[38] created by the decree 49/2010 is responsible for safeguarding financial sector stability, but it is still not in operation. However, fiscal risks from financial sector exposure are not limited to Government explicit guarantees or ownership in the sector. As shown during the financial crisis, total financial sector deposit liabilities could be a source of risk and contagion that may require government intervention in the event of financial crisis. The government approved a *Financial Sector Development Strategy 2013–22* aiming at strengthening financial stability and facilitating long-term financing of the private sector, but there is no assessment of the potential fiscal risks.

[38] The *Banco de Moçambique* (BM), *Banco Nacional de Investimento* (BNI), and Gapi-Soc. *Para Apoio a Pequenos Proj. de Investimento*, S.A (microfinance company) are the main public financial corporations in Mozambique. The public insurance company sector comprises a single entity: the Mozambican Insurance Company (Empresa Moçambicana de Seguros—EMOSE).

89. **The BoM is dealing with financial sector challenges through an enhanced financial stability framework, but the government exposure to financial sector risks remain largely unaddressed.** Financial sector prudential indicators are sound, but assets ownership in the banking system is concentrated. About 85 percent of the assets of the system are held by the three largest banks. Deposits at the commercial banks reach almost 40 percent of GDP for the last two years (Figure 3.3.). As a precaution for any unforeseen economic shocks, the BoM approved its Contingency Plan and Emergency Liquidity Assistance in April 2013. But the BoM reports do not assess the risks faced by the government though it analyzes the risks to financial instability.

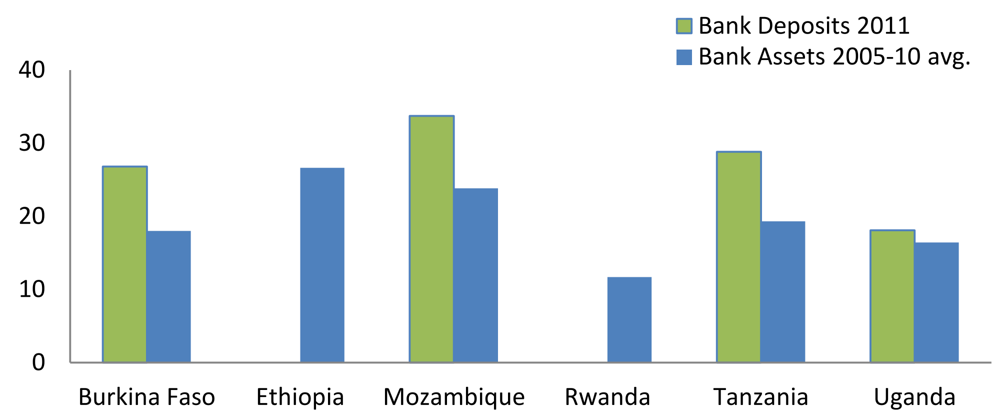
Figure 3.3. Mozambique: Financial Assets & Deposits at Commercial Banks as % of GDP



Source: BoM and Staff estimates

Figure 3.4. Selected Sub-Saharan African Countries, Bank Deposits and Assets

(in percent of GDP)



Data on Bank deposits for Ethiopia and Rwanda are missing

Source: "*World Development Report 2014: Risk and Opportunity—Managing Risk for Development*." World Bank. 2013.

3.2.7. Major and Multi-Annual Contracts (Not Met)

90. **The need to address infrastructure gaps and exploit natural resources requires major and multi-annual contracts, but limited information is published on their fiscal and financial impact**. Mozambique wants to fully utilize its natural resources to expedite its economic and social development. Major projects are planned to develop the country's infrastructures. At the same time, the government is assessing the type of involvement of the state hydrocarbon company ENH in the development and production phases of liquefied natural gas to better manage risks and maintain debt sustainability. A new PPP law (PPP, Large Scale Projects, and Business Concessions, 15/2011) overhauls the oversight framework for undertaking PPPs. It provides a direct oversight from sectoral ministries, an indirect oversight from the MoF over the use of guarantees and fiscal and budgetary impacts of PPP, and the creation of a PPP Unit and sectoral regulatory agencies. The Investment

Policy Review of Mozambique also recommends a simpler arrangement for PPP oversight, instead of the four-agency approach, to streamline the organization and strengthen controls.[39]

91. **Limited information on major and multi-annual contracts is published regularly.** A list of on-going or planned "mega-projects" is regularly published in economic reports such as the CFMP and other medium term reports. The Ministry of Mineral Resources (*Ministério dos Recursos Minerais*) publishes forthcoming tenders of natural gas and mining areas. Mozambique has also been declared compliant with the EITI in October 2012. Nevertheless, public information available on items such as public rights, obligations, and payments over the life of contracts is limited.

92. **There is still room for more transparency**. The PPP Law provides that the CGE should include information on the performance of PPPs at the end of each fiscal year. The PPP legal framework also mandates the publication of PPP contracts, including mining and hydrocarbon ones. But the new law is not retroactive. The PPP unit has collected information on existing PPP; but it cannot publish the data, unless existing projects are revised according to the new law. The TA has mandate for auditing the PPPs, large scale projects, and business concessions.

3.2.8. Environmental Risks (Not Met)

93. **Mozambique faces significant risk of natural disasters but fiscal reports do not identify and discuss their potential impacts in qualitative or quantitative terms.** Mozambique is exposed to droughts, floods and cyclones, and severe natural hazards which could disrupt critical sectors including agriculture, infrastructure, power, water and sanitation, social protection, and health and nutrition (Figure 3.5.). The authorities recognize the need for a disaster risk management strategy. They have approved the Master Plan for Disaster Prevention and Mitigation (*Plano Director para Prevenção e Mitigação de Calamidades*) to better manage and mitigate serious weather-related risks but it does not include the fiscal dimension.

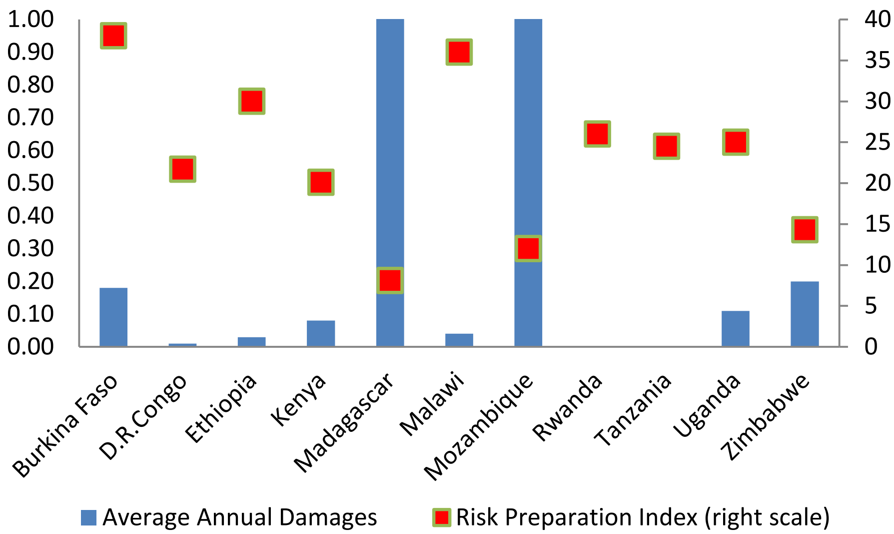
94. **Though the fiscal cost of natural disaster mitigation could be substantial, fiscal risks are not assessed *ex ante*.** The cost of reconstruction work for the 2013 flood is estimated at $500 million (3.3 percent of GDP), and the Post-Disaster Reconstruction Plan (*Plano de Reconstrução Pós-Calamidades*) is planned for implementation over the next three years. A 2013 supplementary

[39] Investment Policy Reviews: Mozambique, OECD, Paris, April 2013.

budget provides $150 million to mitigate the negative impact on the economy. The 2014 Budget proposal underlined the importance of reconstruction efforts and gave priority to financing actions of the Post-Disaster Reconstruction Plan, including replacement of damaged infrastructure and resettlement of affected populations.

Figure 3.5. Selected SSA Countries: Average Annual Damages (droughts, earthquakes, floods, storms)

(in percent of GDP)



Source: "*World Development Report 2014: Risk and Opportunity—Managing Risk for Development.*" World Bank, 2013.

3.3 Fiscal Coordination

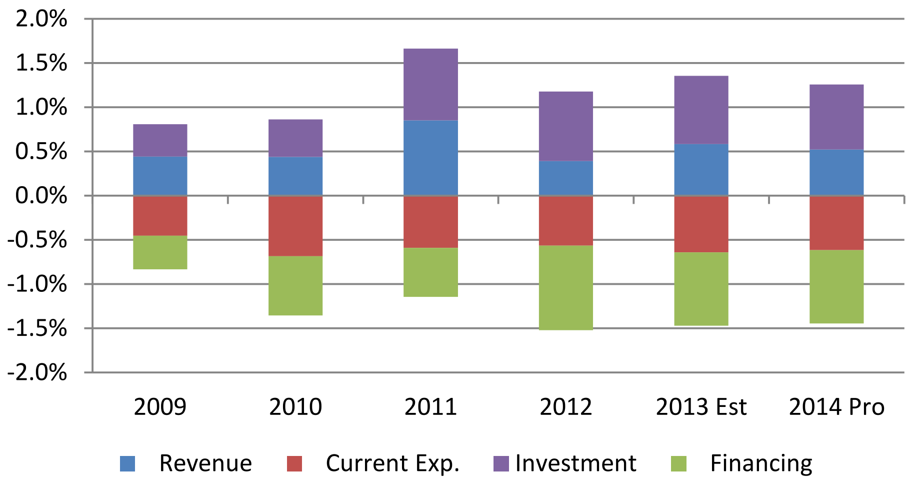
3.3.1. Subnational Governments (Good)

95. **Aggregated information on the financial situation of subnational governments is included in the CGE.** It includes data on revenue, including own revenues, and expenditures. While the institutional coverage of this information is not yet exhaustive, it already includes the most significant subnational entities.

96. **Government supports investment and recurrent expenditures of municipalities, while the law limits their borrowing and liabilities.** Budgetary transfers to municipalities consist of the transfers from Municipal Compensation Fund (FCA),[40] Fund of Local Investment Initiative (FIIA), and Road Fund (FE) and from the Strategic Program for Urban Poverty Reduction (PERPU). Municipalities have also their own revenues; and capacity development efforts have been started at the local level to have a sustainable revenue base. Though municipalities have fiscal and administrative autonomy, rules and limitations on their borrowing have been set by the Law 1/2008. They can only borrow from local creditors up to three twelfths of the amount they receive from the FCA . This amount should also be paid back by the municipality by the end of fiscal year. For long term borrowing from international creditors, they have to get the approval of the Ministry of Finance.

Figure 3.6. Mozambique: Local Governments Fiscal Balance

(Percent of GDP)



Source: Authorities and IMF Staff calculation

97. **Mozambique targets a gradual fiscal decentralization (“*autarquização*”)**. The government introduced a resource-sharing system[41] to empower local administrations and support

[40] The FCA supports operating expenditures of municipalities by financing of the payment of wages and salaries, goods and municipal services.

[41] The 2013 budget allocated 2.75 percent of the revenues generated by mining and petroleum to seven localities in three resource-rich provinces.

their economic development. It also approved a decentralization policy and strategy and updated the 2011–15 Strategic Plan for the Local Administration Sector.

3.3.2. Public Corporations (Basic)

98. **The budget documentation provides information related to transfers from the government to public corporations and revenue collected by the government, such as dividends.** Nevertheless, indirect transfers, such the ones resulting from write-off of taxes due by public corporations, are not quantified and discussed in budget documents.

99. **The structure of public corporations in Mozambique is complex, but the government provides only limited information on their financial performance**. The government's ownership in public corporations is exercised through the Treasury and IGEPE. The Treasury monitors 14 public enterprises, seven of which receive financing from the budget. IGEPE manages ownership rights of the government in 143 companies, 10 of which pay dividends.[42] The 14 public enterprises have administrative and financial autonomy, but require the MoF authorization to borrow and are subject to financial oversight. The Ministry of Finance's authority to oversight public enterprises was recently reinforced under the new Public Enterprises Law (6/2012), which requires investment and borrowing plans of public enterprises to be approved by the sector ministry and the MoF. The Treasury has to assess their financial plans before they can borrow, based on feasibility reports. However, there is a threshold for the approval, as working capital related with a maturity less than two years does not need approval. This legislation does not apply to the enterprises that are controlled by IGEPE.

100. **The size of the public corporation sector and the lack of transparency on its financial performance create significant fiscal risks**. Monitoring activities should be improved. Only historical values of the government's shares are monitored and updated regularly. Though IGEPE prepares an annual activity report and submits it to Treasury, fair value of the government holdings is not monitored and reflected in the government's accounts. As a result, the government has only limited information about the fiscal risks that it faces from the operation of the public enterprises.

3.3.3. Quasi-Fiscal Activity (Not Met)

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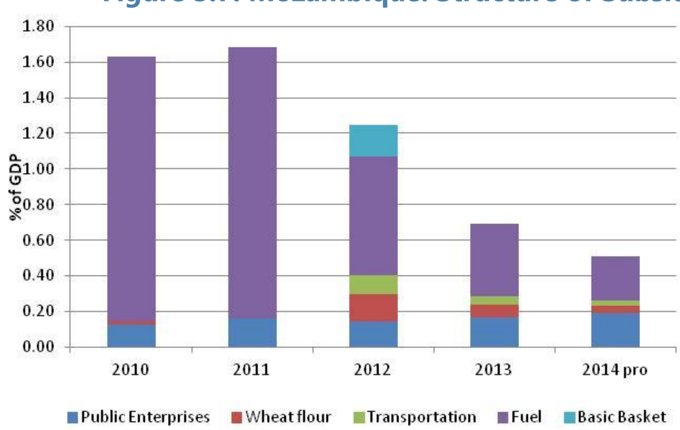
[42] There are 96 Corporations, 21 Limited Corporations, and 1 Foundation under IGEPE. Two of the companies are listed in Maputo Stock Exchange BVM.

101. **There is no qualitative discussion of quasi-fiscal activities undertaken by public corporations (public enterprises/private companies) in the budget**. The budget provides information on price subsidies and transfers to public enterprises. However, there is no clear link between the subsidies and the quasi-fiscal activities conducted by the public enterprises (e.g., public pricing policies). The government sets a cap for annual subsidies in the budget, but may make additional transfers as needed. In addition to capital transfers, the government uses other financing instruments to ensure that public enterprises have the necessary funding for infrastructure projects. The government provides loans (*emprestimos as empresas*) and outstanding special loan agreements (*acordos de retrocessão*) to public enterprises. Furthermore, the MoF has the authority to convert on-lent credit liabilities to capital injections.[43]

102. **Quasi fiscal activities are substantial in the utilities sector.** Energy tariffs are set at below cost recovery levels and this affects the financial sustainability of the electricity company (Electricidade de Moçambique, EDM). The government has provided transfers through cancellation of on-lent loans to EDM and is currently assessing the available alternatives to revise the energy tariffs. The government also maintains administered prices for fuel, cross-subsidizing the consumption of fuel outside the megaprojects. Other price subsidies include wheat flour, fuel, and transportation. The government has committed to gradually eliminate blanket subsidies over the medium term, while targeting subsidies exclusively at vulnerable social segments.[44]

Figure 3.7. Mozambique: Structure of Subsidies



Source: CGE and REO for 2014 provisional data.

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[43] The MoF has authorized by order of April 19, 2007, conversion of credit liabilities of EDM into capital increase in the amount of 3,005,709,900 MT. (2014 Budget Annex on Public Enterprises).

[44] Ibid IMF Country Report No. 13/200 July 2013.

3.3.4. Health and Social Security (Not Met)

103. **Mozambique operates a dual social security system.** The social security directorate, responsible for civil service pension administers two other social security benefits. Funeral payment is an amount paid upon the preretirement or post-retirement death of the employee, to offset funeral costs. Payments are also guaranteed by the government. The third social security payment, the *renda vitialicia* is a means-tested lifetime income payment for eligible recipients whose private property or businesses was involved in the 1975 nationalization. The government guarantees the monthly income payments. The National Institute for Social Security operates the INSS pension scheme for non-civil service employees. A private pension law also enables private companies to offer private pensions as a second pillar option

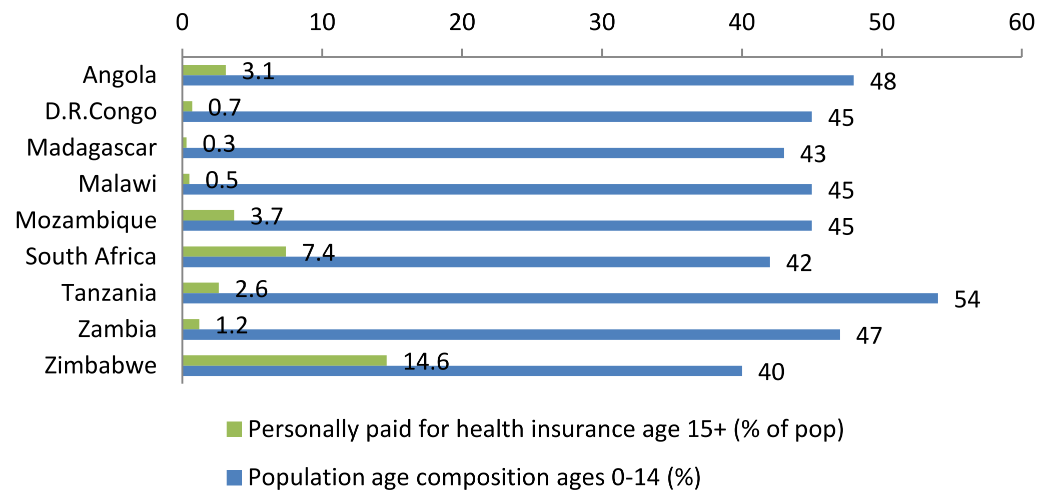
104. **The current financial position of social security is not disclosed on a systematic basis.** The employees of the civil service and the police make compulsory pension contributions of 7 percent of their monthly salary. They also make compulsory contributions of 1.5 percent and 0.5 percent of their salary to the medical benefit and funeral benefit respectively. The *renda vitialicia* payments are not financed through contributions but through income earned by the government on the nationalized property and businesses. Collected contributions for pension and funeral benefits do not accumulate nor are they invested as civil service pension are part of the government budget. INSS contribution is a flat 7 percent of monthly salary, which is invested in a variety of instruments.

105. **Limited public reporting makes the quantification and analysis of fiscal risks difficult.** By law, INSS accounts are supposed to be audited by independent auditors and auditors from the Ministry of Labor, but it has not published audited reports since 2010. A new system for civil servants pension is under consideration by the government to manage and finance the public pension system effectively. The International Labor Organization had prepared a draft actuarial study for the whole system. There is a pressing need for an actuarial study to determine the sustainability of the pension system as its liabilities will eventually have to be covered by the Treasury.

106. **The government is taking measures to ensure the sustainability of future health expenditures.** The Health Strategy 2012–16 was approved to better manage health care expectations of the population (Figure 3.8.) by improving the public health system. The Action Plan

and the Pharmaceutical Logistics Strategy were adopted to deal with the drug logistics crisis and emergency as in the case of the 2011 crisis.

Figure 3.8. SADC countries: Out of Pocket Health Payments and Age Structure



Source: "World Development Report 2014: Risk and Opportunity—Managing Risk for Development." World Bank, 2013.

3.4 Summary

107. Table 3.3 summarizes the quality of Mozambique's fiscal risk analysis and management in accordance to the standards set by the FTC as well as the relative importance of each area. This assessment highlights a number of areas where fiscal risk analysis and management can be improved. Chapter 4 includes a series of recommendations for how fiscal risks analysis and management can be enhanced to provide a more comprehensive and credible picture of short, medium, and long-term fiscal prospects.

Table 3.3. Mozambique: Summary Assessment of Fiscal Risk Analysis and Management

	Principle	Assessment	Importance	Rec
1.1	Macroeconomic Risks	**Basic:** Sensitivity of fiscal forecast to major macroeconomic assumptions is not analyzed in budget documentation	**High:** Economy is becoming more and more diverse and open, with a natural resource boom. Need to assess macroeconomic risks in more detail.	3
1.2	Specific Fiscal Risks	**Basic:** Recognition of specific fiscal risks is limited.	**High:** Fiscal operations prone to various risks that need to be addressed disclosed and quantified.	4
1.3	Comparability of Fiscal Data	**Basic:** At least one fiscal report is prepared on the same basis as the budget.	**Low:** Need to improve consistency among a wider range of reports and explain deviations.	
2.1	Allowance for Budgetary Contingencies	**Basic:** The budget includes a provision for contingencies.	**Low**: Budgetary contingencies are less than 1% of the total expenditures for the last four years.	
2.2	Asset and Liability Management	**Basic:** All borrowing is authorized by law and the risks surrounding the government's debt holdings are analyzed and disclosed.	**Medium:** A set of basic rules is defined in the Budget and basic information on the State's holdings is provided, however the risks analysis is too limited, in respect of the significant stocks of debts and financial assets of the PS (see 1.1.3 above).	
2.3	Natural Resources	**Not met :** Lack of public information on the volume/current value of the NR, and previous year's sales, while NR represents the main assets/fiscal risk in Mozambique	**High:** Natural resources represent the main assets and fiscal risk in Mozambique	6
2.4	Financial Derivatives	**Not Applicable**: Derivatives are not used.		
2.5	Guarantees	**Not met:** The government does not report on outstanding stock of government guarantees.	**High**: Government guarantees and their management policy are not disclosed.	5
2.6	Financial Sector Exposure	**Not Met:** Financial exposure of government has not been quantified and disclosed annually.	**Medium:** Deposits represent 40% of GDP.	
2.7	Major and Multi-Annual Contracts	**Not Met:** No published government report including total rights, obligations, and other exposures under major and multi-annual contracts.	**High:** Capital spending is likely to increase in the context of the infrastructure development	5
2.8	Environmental Risks	**Not Met:** The budget does not identify and discuss the potential fiscal risks from natural disasters in qualitative terms.	**Medium:** Average annual damages are estimated at 1.3% GDP for 1993-2012.	
3.1	Subnational Governments	**Good:** The fiscal condition of subnational governments is published annually. There is a limit on their liabilities or borrowing.	**Low**: Limits on subnationals government' liabilities or borrowing mitigate fiscal risks.	
3.2	Public Corporations	**Basic:** All direct transfers between the government and public corporations are disclosed on at least an annual basis.	**Medium**: Fiscal risks resulting from financial performance of public corporations are not assessed.	7
3.3	Quasi-fiscal activity	**Not Met:** No qualitative discussion of quasi-fiscal activities in the Budget.	**Medium**: QFAs resulting from electricity pricing policy estimated in 2009 at 7 % of GDP (or 19% of budget).	
3.4	Health and Social Security	**Not Met:** The current financial position of social security are not disclosed annually.	**High**: INSS financial situation and liabilities are not monitored.	

RECOMMENDATIONS

4.0 Clarify Institutional Boundaries and Expand Institutional Coverage

108. **Issue:** The scope of the public sector, as defined in international standards, is not know in Mozambique. The number of public corporations owned and/or controlled by the State is not defined and no exhaustive information on the indirect participations of the State, via other public entities (including autonomous entities, local government, or public corporations) is available. The rough estimates of the IMF staff are that the public corporations subsector could have aggregated assets and liabilities of around 43 and 37 percent of GDP respectively. More importantly the institutional coverage of the fiscal reports is limited to the budgetary central government and do not provide a clear view of the financial operations performed by the social security fund and the autonomous entities. Even if no estimates could be done of the aggregate revenue, expenses or stocks of these public entities, they are likely to be significant.

Recommendation 1: Clarify the coverage of the general government and the public sector, and expand the institutional coverage of fiscal reports by:

a. ***adopting internationally accepted criteria for determining the classification of institutional units to the general government, public corporations, and private sector.*** This would help to establish a clear frontier between the government, public and private sectors of the economy and ensure that economic substance prevails over legal form in the classification of institutional units between the different sectors.

b. ***preparing fiscal reports (financial statements and/or fiscal statistics) for at least the aggregate general government sector.*** This would provide policymakers, legislators, markets, and the public with a regular and comprehensive overview of scale and extent of the government activities.

c. ***clarifying and strengthening the reporting requirements of the autonomous institutions and public corporations.*** This would provide the Ministry of Finance with a regular and comprehensive overview of scale and extent of the public entities financial activities, and allow for a more comprehensive reporting to the stakeholders listed above.

4.1 Expand Balance Sheet Coverage and Clarify the Accounting Standards

109. **Issue:** Mozambique's fiscal reports currently includes only the cash and debt stocks, as well as the list of the State's shareholdings, which are not, however, evaluated at their current value. The fiscal reports do not disclose liabilities associated with the government's pensions obligations or long-term contracts, nor include the government's most important category of assets: the subsoil natural resources reserves.

Recommendation 2: Expand the coverage of balance sheets by:

a. ***valuing and recognizing the government commitments and liabilities under long term contracts.*** This would ensure that the budgets are prepared on the basis of an exhaustive and reliable outturn of the State operations.

b. ***valuing and recognizing infrastructure assets.*** This will enable policymakers, markets, and the public to understand the impact of the capital expenditures, when capital expenditures exceeded 10 percent of GDP in 16 out of the last 20 years.

c. ***valuing and disclosing obligations and off-balance sheet from funded pension's schemes and the pay-as you-go scheme managed by the government and the INSS.*** This would provide a clearer picture of the impact of pension systems reforms on the government's overall net worth and raise awareness of the growing obligations associated with future unfunded social security benefits payments.

d. ***valuing, recording and analyzing tax expenditures and tax related liabilities.*** This would provide a clearer picture of the impact of the current tax regime and raise awareness on the growing expenses associated with new investment projects.

e. ***clarifying the accounting standards and improving the presentation of the financial statements.*** This would enable policymakers, markets, and the public to understand better the financial operations of the Mozambique State.

4.2 Improve the Accuracy and the Transparency of Fiscal Forecasts

110. **Issue:** Fiscal forecasts tend to underestimate revenues and over estimate expenditures. Lack of accurate forecasts of donor revenues impacts the implementation of programs.

Actions

a. ***Improve the quality of forecasting, to minimize forecast errors, and disclose assumptions underlying projections.***

b. ***Disclose and explain any material changes to the government's previous fiscal forecast.***

4.3 Improve the Analysis of Fiscal Risks

111. **Issue:** Mozambique's fiscal prospects are subject to risks. Risks abound from reliance on donor support for external financing, susceptibility to exogenous shocks from natural disasters, activities of public enterprises, major and multi-annual contracts for infrastructure, contingent liabilities and quasi-fiscal activities. Apart from risks to external financing, none of these other risks are recognized or analyzed in official documents, and there is no strategy for managing them.

Recommendation:

a. ***Analyze the sensitivity of the government's fiscal forecast to different macroeconomic assumptions***.

b. ***Produce alternative macro-fiscal scenarios*** *that* would help to illustrate the robustness of the government's fiscal setting to a range of plausible macroeconomic shocks and underscore the importance of contingency planning in fiscal policymaking.

c. ***Publish a comprehensive statement of fiscal risks and strategy for managing quantifiable risks***, including guarantees, natural disasters, activities of public enterprises, asset and liabilities, quasi fiscal activities, and the actuarial position of social security schemes.

d. **Set out the government's largest contingent liabilities, estimates of their magnitude and likelihood, and the government's strategy for managing them.**

4.4 Improve the Disclosure of Fiscal Risks

112. **Issue:** Mozambique faces a wide range of fiscal risks that are not currently identified, assessed and mitigated.

Actions

a. ***Develop a government guarantee management policy*** which identifies all government's guarantees, their beneficiaries, and the overall financial exposure. Include information in the annual budget about the probability of the guarantees being called.

b. **Publish an annual report on the overall** financial performance of public enterprises, publicly owned corporations, and equity holdings by the state in private enterprises. Present direct and indirect financial support (debt forgiveness, etc.) between the government and the public sector. Enforce the publication of the annual reports of large state-owned companies.

c. **Manage and disclose fiscal risks related to the social security funds (INSS**). Regularly update the projected financial and actuarial positions of the funds under existing policies for at least 20 years every three years.

d. **Actively manage major and multi-annual contracts**, including public-private partnerships and contracts for the exploitation of natural resources. All public rights, obligations, and other exposures including the expected annual revenues and payments over the duration of the contracts should be regularly disclosed at least annually. A legal limit should be set on accumulated obligations.

e. **Clarify and publish the criteria to access and use budget contingency resources** and create a new module in the quarterly execution report to detail how the contingencies were used in the previous quarter.

4.5 Improve Transparency and Risk Management in the Hydrocarbon and Natural Resource Sector

113. **Issue**: Recent discovery of natural gas, as well as ongoing exploitation of petroleum resources is likely to transform Mozambique into a major resource rich country in the next few years.

But it also comes with risks such as increased volatility of revenue and economic growth, and possible macroeconomic distortions that come with resource boom if not well managed.

Actions

a. ***Improve transparency*** *by publishing information about the value and volume of natural resource assets, as well as the government's ongoing exploitation.*

b. ***Incorporate assumptions*** *about the hydrocarbon sector in macroeconomic projections.*

c. ***Manage risks*** *through the use of appropriate fiscal regime and rules.*

4.6 Enhance the Financial Oversight of Public Enterprises

114. **Issue:** Mozambique has over 156 public corporations, which net asset value remains largely unknown. The state investment company that oversees these corporations, IGEPE, is by law required to submit annual statements, but the government's oversight of the acquisition and disposal of financial assets is limited. Quasi-fiscal activities undertaken by public corporations through, for instance, the provision of services and goods at below the market prices are not disclosed and monitored.

Actions

f. ***Require public corporations to disclose and quantify in their financial statements the cost of any provision of goods or services at below market prices, public service undertakings, or other quasi-fiscal activities.*** This would improve understanding of the full extent and cost of fiscal activity in the economy.

g. **Disclose all direct and indirect support**, including transfers, between the government and public corporations on an annual basis.

FISCAL TRANSPARENCY ACTION PLAN

The following table proposes a sequenced fiscal transparency action plan to enhance the information for fiscal decision-making in Mozambique and ensuring the country keeps pace with evolving international transparency standards and practices. It is focused on the most critical improvements, in the specific context of Mozambique.

It has been designed as an input to formulate the authorities' reform strategy.

Action	Year 1	Year 2	Year 3	Year 4	Year 5
FISCAL REPORTING					
1. Clarify Institutional Boundaries and Expand Institutional Coverage					
a. Adopt internationally accepted criteria for determining the classification of institutional units to the general government, public corporations, and private sector	Based on GFSM 2014 include all public sector entities within the existing register. Define the procedure for ensuring the register regular update	Publish the register of all public sector entities based on GFSM 2014	Update and publish on a yearly basis the register of public sector entities		
b. Prepare fiscal reports (financial statements and/or fiscal statistics) for at least the aggregate general government sector	Finalize the Law on Autonomous Institutions and integrate requirements on financial reporting, and transmission of this information to MoF	INSS, all autonomous institutions, and municipalities, which are part of the general government sector produce financial statements	MoF centralizes yearly the financial statements of general government sector entities and expands the CGE coverage	CGE and fiscal statistics for the aggregate general government sector are produced on a yearly basis	
2. Expand Balance Sheet Coverage and Clarify the Accounting Standards					
a. Value and recognize government commitments and liabilities under long term contracts	Inventory central government commitments and liabilities under long-term contracts	Inventory local government and autonomous institutions commitments and liabilities under long-term contracts	Recognize government commitments and liabilities under long-term contracts in yearly balance sheets		

Action	Year 1	Year 2	Year 3	Year 4	Year 5
b. Value and recognize infrastructure assets		Define an action plan and methodology for inventorying and evaluating infrastructures	Value all infrastructure assets either at historical cost or market value	Recognize infrastructure assets in yearly balance sheets and assess the control over assets under PPPs using international standards such as GFSM 2014 and IPSAS32	
c. Value and disclose obligations and off-balance sheet from funded pensions schemes and the pay-as you-go scheme managed by the government and the INSS	Value assets and accrued liabilities from funded pensions	Disclose assets and liabilities from funded pensions in notes to balance sheet	Recognize assets and liabilities from funded pensions in balance sheets		
d. Value, record and analyze the tax expenditures and tax liabilities		Value, record and analyze the tax expenditures and tax liabilities and disclose in the CGE the methodology used to determine their value, the legal basis supporting exemptions, and the budgetary goals and targets for tax expenditures defined by the Government			

Action	Year 1	Year 2	Year 3	Year 4	Year 5
e. Clarify the accounting standards and improve the presentation of the financial statements		As a preliminary step towards transition to accrual accounting; prepare financial statements for central government consistent with cash-basis IPSAS	Publish yearly financial statements according to adopted standards within 9 months of the end of the fiscal year		
FISCAL FORECASTING AND BUDGETING					
3. Improve the Accuracy and the Transparency of Official Forecasts					
a. Introduce more rigor into forecasting so as to minimize forecast errors, and state assumptions underlying projections	Include in the budget documentation for key macroeconomic forecasts and their underlying assumptions	Publish a fiscal strategy including economic forecasts, fiscal projections and priority policies by June to prepare budget of the following year			
b. Disclose and explain any material changes to the government's previous fiscal forecast.		Publish a reconciliation of the sources of changes to the government's fiscal forecast separately identifying the effects of changes in (i) macroeconomic variables; (ii) other factors	Publish a reconciliation of the sources of changes to the government's fiscal forecast separately identifying the effects of changes in (i) macroeconomic variables; (ii) policy measures; and (iii) other factors	Publish a reconciliation of the sources of changes to the government's fiscal forecast separately identifying the effects of changes in (i) macroeconomic variables; (ii) policy measures; (iii) classification changes; and (iv) other factors	Publish a reconciliation of the sources of changes to the government's fiscal forecast separately identifying the effects of changes in (i) macroeconomic variables; (ii) sector-specific parameters; (iii) policy measures; (iv) classification changes; and (v) other factors
FISCAL RISKS MANAGEMENT					

Action	Year 1	Year 2	Year 3	Year 4	Year 5
4. Improve the Analysis of Fiscal Risks					
a. Analyze the sensitivity of the government's fiscal forecast to different macroeconomic assumptions	Analyze the sensitivity of the government's fiscal forecast to different macroeconomic assumptions	Publish analysis of sensitivity of fiscal forecasts to different macroeconomic assumptions	Publish alternative fiscal scenarios based on alternative macroeconomic scenarios	Publish probabilistic analysis of range of forecast fiscal outcomes based on past forecast errors	
b. Publish a comprehensive statement of fiscal risks and strategy for managing quantifiable risks	Prepare qualitative fiscal risk statement for internal management purposes	Prepare quantified fiscal risk statement with value of exposures to quantifiable risks and draft a fiscal risk strategy	Publish fiscal risk statement with value of exposure to quantifiable risks	Publish fiscal risk statement with value of exposure and likelihood of quantifiable risks	Publish fiscal risk statement with value of exposure to, likelihood of, and strategy for managing quantifiable risks
5. Improve the Disclosure of Fiscal Risks					
a. Develop a government guarantee management policy	Publish a detailed list of outstanding guarantees and adopt a government guarantee management policy	Estimate likelihood of different classes of guarantees being called and start disclosing annually value of guarantees likely to be called in budgets and accounts	Provision in budgets and accounts for guarantees likely to be called		
b. Publish an annual report on the overall financial performance of public enterprises, publicly owned corporations, and equity holdings by the state in private enterprises	Publish survey of numbers and activities of public corporations by economic sector	Publish overview of aggregate financial position of public corporations sector	Publish overview of aggregate financial position and prospects of public corporations sector	Publish overview of aggregate financial position, prospects, and risks of public corporations sector	Publish overview of consolidated financial position, prospects, and risks of public corporations sector
c. Manage and disclose fiscal risks related to the social security funds (INSS)	Calculate the projected position of the fund under existing policies for the 20 year horizon at least every three years	Government prepares a strategy including planned policy measures to address any projected deficits	Disclose strategy including planned policy measures to address any projected deficits	Update the projected position of the funds under existing policies for the 20 year horizon at least every three years	

Action	Year 1	Year 2	Year 3	Year 4	Year 5
d. Actively manage major and multi-annual contracts	Publish annually list of major and multi-annual contracts including all public rights, obligations and other exposures detailed	Set a legal limit on accumulated obligations			
6. Improve Transparency and Risk Management in the Hydrocarbon and Natural Resource Sector					
a. Publish information about the value and volume of natural resource, as well as government's interest and ongoing exploitation	Assess and publish government's interest in ongoing exploitation	Publish survey of volume of natural resources reserves	Publish estimated value of natural resource reserves	Recognize value of subsoil assets in balance sheet	Publish information on the previous year's sales of government main natural resources
b. Incorporate assumptions about the hydrocarbon sector in macroeconomic projections	Produce long term projections of natural resource revenue under alternative price and output scenarios	Incorporate assumptions about the hydrocarbon sector in macroeconomic projections	Quantify both upside and downside risks, using alternative scenarios		
c. Manage risks through the use of appropriate fiscal rules	Define fiscal rules to manage specific risks related to revenue from natural resource	Incorporate fiscal rules in the legal framework			
7. Enhance the Financial Oversight of Public Enterprises					
a. Require public corporations to disclose and quantify in their financial statements the cost of any provision of goods or services at below market prices, public service undertakings, or other quasi-fiscal activity		Require public corporations to quantify all public service undertakings in financial statements	Require public corporations to quantify all public service undertakings, and provision of goods/services at below-market prices in financial statements	Require all public corporations to disclose quantified quasi fiscal activity in their yearly financial statements	

Action	Year 1	Year 2	Year 3	Year 4	Year 5
b. Disclose all direct and indirect support, including transfers, between the government and public corporations on an annual basis	Consolidate information on direct and indirect support to public corporations	Publish an annual report on direct and indirect support (debt forgiveness etc.) between government and the public corporations			