



DRAFT

**PUBLIC EXPENDITURE MANAGEMENT
COUNTRY ASSESSMENT AND ACTION
PLAN (AAP)**

Mozambique

**PREPARED BY THE WORLD BANK AND THE IMF IN
COLLABORATION WITH THE MOZAMBIQUE AUTHORITIES**

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Abbreviations and Acronyms

PSI	Integrated Sectoral Programs
GoM	Government of Mozambique
TA	Administrative Tribunal
BCM	Commercial Bank of Mozambique
BER	Budget Expenditure Report
BM	Bank of Mozambique
CFAA	Country Financial Accountability Assessment
CFMP	Medium Term Fiscal Framework
COFOG	Classifications of the Functions of Government
DFID	Department for International Development
DNPO	National Directorate for Budget
DGA	Customs National Directorate
DGI	Tax National Directorate
DPPFs	Provincial Directorate for Plan and Finance
EC	European Commission
EMRS	Expenditure Management Reform Strategy
ESRP	Economic and Social Rehabilitation Program (ESRP)
HIPC	Highly Indebted Poor Countries
IGF	Finance Inspectorate General
GFSM	Government Finance Statistics Manual
IFMIS	Integrated Financial Management Information System
MAE	Ministry of State Administration
MICAS	Ministry of Coordination for Social Action
MINED	Ministry of Education
MISAU	Ministry of Health
MOPH	Ministry of Public Works and Housing
MPF	Ministry of Planning and Finance
MTFF	Medium Term Fiscal Framework
OE	State Budget
PARPA	Action Plan for the Reduction of Absolute Poverty
PEMR	Public Expenditures Management Review
PES	Economic and Social Plan
PRGF	Poverty Reduction and Growth Facility
PRSP	Poverty Reduction Strategy Paper
PSIs	Integrated Sectoral Programs
PTIP	Three Year Investment Program
SIPs	Sector Investment Programs
SISTAFE	Integrated Financial Management System

INTRODUCTION

This report contains an assessment of Mozambique's public expenditure management capacity with respect to tracking poverty-reducing spending. It is based on a common framework of 16 indicators that is applied to all World Bank/IMF Heavily Indebted Poor Countries (HIPC) Initiative beneficiary countries. The assessment and corresponding action plan were reviewed and mutually agreed with Government of Mozambique and the World Bank and IMF.

At the time of the first HIPC Inclusive assessment in 2001, Mozambique met 5 out of 15 indicators benchmark. Since then, Mozambique has made progress in various areas, especially on those related to the new integrated financial management information system (SISTAFE). Nonetheless, this progress is not translated into a better assessment performance — Mozambique now meets 4 out of 16 benchmarks—due to the fact that AAP guidelines are now more specific than they were during the previous assessment. Budget coverage and timeliness of recording transactions after the end of fiscal year are now considered to meet the benchmark in this years' assessment. However, a few indicators' assessment has deteriorated since 2001, including internal control and budget classification. Regarding the later, it is believed that the previous assessment did not capture the actual situation, and so this assessment does not imply that the situation has worsened.

The reports also puts forward the list of actions to strengthen Mozambique's expenditure management capacity. One of the main plan is to introduce SISTAFE. Once SISTAFE is installed, Mozambique government expects to make expenditure management system more effective and timely.

On preparing this assessment, the mission relied on various reports on Mozambique, on an interview with the World Bank Mozambique country economist, Peter Moll, as well as with local FAD resident expert cooperation. The list of reports referred is provided in the annex.

I. COVERAGE OF THE INSTITUTIONS ASSESSED

A. What amount of total government poverty-reducing spending is carried out by subnational levels of government?

Poverty-reducing spending by subnational levels of governments, provinces, districts, and administrative posts, remain very low, reflecting the highly centralized nature of Mozambican state. The Priority sectors' budgets, which overlaps largely with the category of poverty-reducing spending, are determined by the sectoral ministries at the central level, thus subnational levels of government has limited input in the budget formulation process and subsequently into the execution process.

For example, discretionary provincial spending averaged 3.7 percent over the pre-PSI period, 1995-1997, and 1.8 percent during the post-PSI period, 1998-2001 (excluding 1999)¹. That is

¹ P26. Mozambique Public Expenditure Management Review, December 2001, Report No. 22985-MOZ

subnational level spending, which was quite low, has shrunk even further. The data supports the argument that in general the PSIs in the priority sectors, which consist largely of poverty-reducing spending, has the effect of re-concentrating authority at the central level by diminishing the percentage of budget funds allocated at the provincial levels. However, it should be noted that in case of agricultural sector, the decentralization efforts have continued, with the budget spent by the province amounting to 25 percent of total budget.²

Based on this information, it is believed that subnational levels of government carry out less than 10 percent of poverty-reducing spending. Thus, this AAP can focus satisfactorily on central government solely.

II. ASSESSMENT

Indicator 1: Coverage of the budget or fiscal reporting entity.

Question: How well does the coverage of fiscal information match the Government Finance Statistics (GFS) definition of the general government sector?

Benchmark: (A) Fiscal reporting covers the GFS definition of the general government sector, i.e., including central, regional, and local governments, and all government operations, whether funded through the budget or not.

General Assessment: Benchmark is met (A). Fiscal reporting covers the government sector and all government operations.

Current fiscal reporting coverage in the government of Mozambique (GoM) is well matched with IMF's Government Finance Statistics, including the general government activities of state, regional and local governments in proposed budgets and its outturn.

In recent years, the GoM has improved its fiscal reporting system in two phases. The first one took place in 2001 when the *Diploma Ministerial* on expenditure classifiers improved both reporting coverage and budget classification. Regarding budget coverage, it included all units of central and local governments, statutory institutions established as government owned self-governing units, and extra budgetary funds. In terms of budget classification, the *Diploma Ministerial* proposed several improvements, including the organic, economic activities, and function classifications.

Recently, in June 2004, as a result of the SISTAFE implementation process, the Decree No. 23/2004 introduced new improvements on budget coverage and classifications. The most important ones are: (i) a new functional classification, adopting the 2001 GFSM structure; (ii) source of resources classification; (iii) more detailed organic classification, including District Government level, and; (iv) a new Chart of Accounts. The 2005 budget proposal is being released consistently with these classifications.

² P5, Mozambique, Poverty Reduction Strategy Paper - Progress Report Joint Staff Assessment, May 2004

Moreover, it is important to mention that Mozambique has two main fiscal reports: one called Budget Expenditure Report (BER) and the other, more comprehensive, called General Accounts of State. The former, as its name expresses, is focused on the budget execution. So, transactions made without budget support are supposed to be included in the second.

Nonetheless, the General Accounts of State shows a very limited view of off-budget expenditures. They are recorded in only one table in which there is neither an explanation nor a descriptive information on the body of the report. Municipalities and some autonomous institutions – like the Social Security Institute and a vast quantity of Funds - are reported in an annex presenting consolidated information instead of a detailed one.

The new integrated financial administrative system—SISTAFE—will address these transparency and visibility issues on the government operations and institutions.

In summary, although the quality of fiscal reports still needs improvement, it is believed that fiscal information presented in official reports matches more than 95 percent of GFS definition of general government. Thus, this benchmark is met.

Indicator 2: Degree of spending being funded by inadequately reported extrabudgetary sources.

Question: *To what degree are general government activities funded through inadequately reported extrabudgetary sources?*

Benchmark: *(A) Not significant: Government activities are not funded through inadequately reported extrabudgetary sources to a significant degree (3 percent or less of total spending).*

General Assessment: *Benchmark is not met (C). Off-budgets are still substantial, although progress has been made in recent years.*

The mission team was unable to find out the exact degree of general government activities funded through inadequately reported extrabudgetary resources. However, based on the sample analysis, it is believed that off-budget are still substantial.

The only known source of information on the magnitude of the off-budget problem in Mozambique was a study done in 1999 commissioned by the MPF (*“Identificação dos “Off-Budgets” e Mecanismos para a sua Integração no Orçamento do Estado”*; Austral), which covered the Ministry of Coordination for Social Action (MICAS)³, the Ministry of Public Works and Housing (MOPH), and the Ministry of Health (MISAU). At the provincial level it covered Sofala and Zambézia. The ministries of agriculture and education declined to

³ MICAS did not report having any own revenues at the central level, though apparently there are own revenues collected at the district and provincial levels (in nurseries, childcare centers, etc.).

participate in the study at the central level, though some information on their activities was collected at the provincial level.

From this study, it is found that in the Ministry of Health, about 37 percent of general government activities was funded through extrabudgetary funds. For Ministry of Public Works and other ministries, it is not clear how much resource was funded through extrabudgetary funds.

Since then, the GoM has made progress in bringing off-budget expenditure into budget. In recent years some donor-funded spending, mainly in the investments area, were identified and brought to the budget. For 2005, an important step was made: provinces and local government (Districts) were fully detailed and included in the budget proposal; revenues collected by public hospitals as well as taxes related to the issue of passports were both identified and as well included in the 2005 budget proposal.

In spite of these efforts, several ministries still have off-budget revenues and expenditures. Own-revenues of embassies, some donor-funded investments projects and the whole expenditure of the Central Bank are not yet captured in the budget. In the same way, the Social Security Institute, whose expenditure is closely related to poverty reducing, as well as part of the payroll of units of the MPF are not included in the budget.

However, although it is hard to assess data on this issue, overall estimation of this off-budget resource in GoM general government activities is fairly believed to be more than ten percent of total spending, including donor-funded spending.

Action Plan

Short-term measures

- Develop studies in two specific areas to identify off-budgets expenditure, its effect on recorded revenues and expenditures, towards later inclusion on the budget.

Indicator 3: Reliability of budget as a guide to the future.

Question: How would you describe the level and composition of the budget outturn at an administrative or functional level relative to the original budget's appropriations?

Benchmark: (B) Budget data are quite close to the original budget.

General Assessment: Benchmark is met (B). Budget outturn is quite close to the original budget's appropriation.

The formal process undertaken by GoM for budget elaboration is quite comprehensive. Every year, in May, MPF launches a long and detailed document called "*Metodologia para Elaboração das Propostas do Orçamento do Estado*".⁴ The Budget proposal is normally

⁴ This document presents instructions for line ministries on the way they should prepare their proposals which are then discussed with authorities of the National Directorate for Budget.

submitted to the Parliament by September, 30. In the meanwhile, the ‘top-down’ spending cap imposed by the MPF is combined with the ‘bottom-up’ expenditure detail given by the line ministries.

Mozambique’s budget, similarly to many other countries, presents a formal separation between the current and investment spending. Current spending, for most line ministries, consist basically of personnel expenditures. For instance, in 2002 and 2003 the Ministry of Education spent with personal 87 and 88 percent, respectively, of its total current expenditures. This aspect helps to explain the fact that, in general, actual current expenditures are often very close to the amount originally approved in the budget law, as seen on the Table 1 below.

Table 1: Current Spending
Initial Budget and Executed Spending by Organic Classification, 2002 and 2003

Discrimination	Mt billions					
	2002			2003		
	Approved	Executed	%	Approved	Executed	%
Central and Provincial Administration /1/2	9,304	9,592	103.1	11,748	10,821	92.1
Ministry of Education	2,691	2,694	100.1	3,150	3,153	100.1
Ministry of Defense	740	722	97.5	850	820	96.5
Ministry of Higher Education and S & T	379	390	102.6	547	408	74.5
Ministry of Plan and Finance	353	372	105.3	591	575	97.3
Ministry of Health	1,498	1,311	87.5	1,900	1,332	70.1
Ministry of Agriculture	195	226	116.2	271	188	69.6
Legislative Branch	174	162	93.4	195	184	94.3
Judicial Branch /3	108	87	80.8	161	121	74.9
Rest of Central and Provincial Adm.	3,165	3,627	114.6	4,083	4,040	99.0

/1 Excludes Encargos Gerais do Estado (transfers to families, transfers to private and public sectors, payment of interest on foreign and internal debt).

/2 Includes international grants and donations.

/3 Supreme Court and Council of Magistrates

Sources: State General Reports, tables 17 and 19, for execution. Budget Law for the "Approved".

On the other hand, the execution of investment expenditures shows a different scenario. As seen below in Table 2, in general Mozambique spent 69.8 and 86.2 percent of the approved investments for years 2002 and 2003. Moreover, ministries like Health and Agriculture—two of the most important areas of Mozambique’s program for reducing poverty (PARPA)—presents a poorer degree of execution when compared to the average of the central and provincial administration.

Table 2: Investment Spending
Initial Budget and Executed Spending by Organic Classification, 2002 and 2003

Discrimination	Mt billions					
	2002			2003		
	Approved	Executed	%	Approved	Executed	%
Central and Provincial Administration /1/2	10,181	7,103	69.8	10,656	9,188	86.2
Ministry of Education	1,154	422	36.6	789	902	114.2
Ministry of Defense	66	49	73.3	65	54	83.0
Ministry of Higher Education and S & T	223	162	72.5	410	343	83.5

Ministry of Plan and Finance	97	88	90.7	340	270	79.4
Ministry of Health	2,074	1,001	48.3	1,933	1,251	64.7
Ministry of Agriculture	613	205	33.4	1,220	894	73.3
Legislative Branch	5	10	202.4	10	11	111.9
Judicial Branch /3	58	26	44.7	64	31	48.4
Rest of Central and Provincial Adm.	5,890	5,141	87.3	5,825	5,433	93.3

/1 Excludes Encargos Gerais do Estado (transfers to families, transfers to private and public sectors, payment of interest on foreign and internal debt).

/2 Includes international grants and donations.

/3 Supreme Court and Council of Magistrates

Sources: State General Reports, tables 17 and 19, for execution. Budget Law for the "Approved".

The poor performance is related to the fact that that some donor-funded expenditure, although included in the budget, are executed and accounted for through an off-budget mechanism, as described on the next indicator.

Table 3: Total of Current and Investment Spending
Initial Budget and Executed Spending by Organic Classification, 2002 and 2003

Discrimination	Mt billions					
	2002			2003		
	Approved	Executed	%	Approved	Executed	%
Central and Provincial Administration /1/2	19,485	16,695	85.7	22,404	20,008	89.3
Ministry of Education	3,845	3,116	81.0	3,939	4,054	102.9
Ministry of Defense	807	771	95.5	914	874	95.6
Ministry of Higher Education and S & T	603	551	91.5	958	750	78.3
Ministry of Plan and Finance	450	460	102.2	931	845	90.8
Ministry of Health	3,573	2,312	64.7	3,834	2,583	67.4
Ministry of Agriculture	807	431	53.4	1,490	1,082	72.6
Legislative Branch	179	173	96.4	204	194	95.1
Judicial Branch /3	166	113	68.2	225	152	67.4
Rest of Central and Provincial Adm.	9,055	8,768	96.8	9,908	9,474	95.6

/1 Excludes Encargos Gerais do Estado (transfers to families, transfers to private and public sectors, payment of interest on foreign and internal debt).

/2 Includes international grants and donations.

/3 Supreme Court and Council of Magistrates

Sources: State General Reports, tables 17 and 19, for execution. Budget Law for the "Approved".

Table 3 above shows improvements in both budget formulation process and execution. Since the Diploma Ministerial of 2001, the accuracy of the budget as a tool for allocating spending priorities has improved, although further improvements are still necessary.

However, an important fact should be mentioned. Significant amount of discrepancies in the recording of budget outturns appear between the Budget Execution Reports (BER) and the State General Report—main source of actual spending information used on the tables presented here. This happens because BER are usually prepared immediately after the fiscal period, mostly in early January, while the State General Report is available only six months after the end of the fiscal year. This extra time gives MPF the opportunity to receive and classify expenditure done outside budgetary traditional controls—thus covering more than the spending caught by the budget, as described in the next indicator.

Therefore, GoM merits a (B) on this indicator, because the budget outturns presented by the State General Report varies more than 5 percent, but less than 20 percent, in the two years for which the data was available.

Action Plan

Short-term measures

- Establish quarterly disbursement targets (by MPF)

Indicator 4: Inclusion of donor funds⁵

Question: Are donor funds included in central, state, and local governments' budget(s) and/or fiscal reports?

Benchmark: (A) All: Budgets and/or fiscal reports at all levels of government include, without exception, grants projected to be provided by donors, and the investment and recurrent expenditure of all multilaterals and bilateral donor-funded activities.

General Assessment: Benchmark is not met (B). Although some important sectors has its donor-funded expenditures included in the budget, at the Provincial level the situation is not the same and the rule is to have this kind of expenditure off-budget.

On the Central Government level, most donor-funded expenditures have been included in budget preparation every year. In some sectors, like agriculture, these expenditures are almost fully included in the budget, but due mainly to the fact that most of the financial mechanisms are controlled and monitored by donors providing the financing, the execution and recording of these expenditures is usually done off-budget.

The Government, trying to remedy this situation, uses a mechanism in which data is provided by sectors and donors. Whenever receiving a donor disbursement, the Treasury advances a cash flow to the sector, an operation called *Operações de Tesouraria*. The sector, after having spent this cash flow, presents a balance which is then recorded in the accounting system. This system has the inconvenience of being both time-consuming and bureaucratic, but at least captures some information on the expenditure. Then, this information is partially presented on the Budget Expenditure Report (BER), but in its totality on the State General Report - the final yearly accounting report presented to Congress.

The BER for the first semester of 2004 shows that the budget recorded about Mt 2,339 billions of donor-funded expenditures (of a year prevision of Mt 10,206 billions).

Because Government accounting is done manually, these donor-funded expenditures are not fully recorded in the different budget lines until the following quarter (i.e., the full record of the funds identified and registered in the first-quarter was accounted during the second quarter and included in the second semester of the 2003 budget report). The 2004 first semester

⁵ This section draws substantially on the World Bank's draft 2004 Public Expenditure Review.

budget report shows the final accounting of about Mt 1,219 billion (or some 52 percent of the donor-financed expenditures recorded for the period)

On the other hand, at provincial and district levels, most donor-funded expenditures are not even recorded on the budget. The implementation of SISTAFE, jointly with efforts from the international partners of Mozambique, will continue to lead to further improvements in the recording of these expenditures.

The benchmark of this indicator (all donor-funds are reported in fiscal report) is not met, for there is still some expenditure to be included.

Action Plan

Short-term measures

- Urge donors to use the right classifiers in their information to GoM on their programs and projects.
- Use the implementation of the new budget and treasury financial system (e-SISTAFE) to convince donors to improve the flow of information on grants, preferably by including them in the state budget.

Indicator 5: Classification

Question: *What types of classification apply to the budget and budget expenditures?*

Benchmark: *(B) Administrative, economic and functional (to subfunctional level) or administrative, economic, and programmatic basis.*

General Assessment: *Benchmark is not met (C). Although the GoM is using an administrative, economic and functional budget classifier since 2001, problems were identified regarding this last one.*

Before Decree N° 23, of July 2004, takes effect, Mozambique continues to use a budget classification outlined in *Diploma Ministerial* in 2001. Under that system, fiscal reports apply administrative, economic, and functional classification, but do not have a program classification. Also, there is an issue of accuracy and usefulness in the sub-functional level classification.

While that system has provided sub-functional information on public expenditure, consistent with former UN COFOG guidance, there are some measurement problems in sub-function level. When the expenditure is incurred by the executing agency, it is not classified by sub-function. The Ministry of Planning and Finance (MPF), after receiving the information from all agencies, reclassifies the expenditure with their best second guess into sub-functional level. This ex-post scheme is evidenced by the fact that most expenditure is classified as “others” in sub-functional level, reflecting MPF’s inability to reclassify organizational classification into sub-functional one, thus, making analysis on sub-function level of little value.

Currently, related to the SISTAFE implementation, the GoM approved a new classification grade that matches the GFSM. This classification includes 10 functions and several sub-functions, economic, resource source and organic grades. The budget proposal for 2005 is expected to be released consistently with these new classifications. Although the new classification addresses the problem of including source of resources, as well as sub-national governments, the weakness of the sub-functional classification will remain unsolved until the implementation of a programmatic classification, expected to be settled in the forthcoming years.

Action Plan

Short-term measures

- Revise the functional, territorial and organic classifiers in the 2005 budget.
- Introduce a source of fund classifier in the 2005 budget.

Indicator 6: Identification of poverty-reducing spending

Question: What is the principle means for tracking poverty-reducing spending?

Benchmark: (A) Use of the existing budgetary classification system through a so-called Virtual Poverty Fund: Poverty-reducing expenditures are clearly identified in the budget.

General Assessment: Benchmark is not met (C). There are no Virtual Poverty Fund and either a clearly identified way of tracking the poverty-reducing expenditure in the budget, although there has been a considerable reduction in the absolute percentage of poverty.

The definition of “poverty-reducing spending” is so broadly defined in Mozambique. Due to this extremely broad definition of poverty-reducing spending, current broad functional classification is able to identify poverty-reducing spending. However, the fact that only aggregate level information on poverty-reducing spending makes it almost impossible to assess whether GoM’s public spending is effectively tackling poverty.

The GoM categories poverty-reducing spending by ‘Priority areas’ and ‘Complementary Areas’⁶. Priority Areas consists of about 70 percent of total spending of GoM and ‘priority areas’ and ‘complementary areas’ make up more than 90 percent of total spending. In fact, almost all spending is health, public work, and education sector is regarded as poverty-reducing spending. For example, the current classification doesn’t allow to tell how much is being spent on malaria, which is the biggest cause of morbidity and mortality.

On the other hand, the GoM claims that its Poverty Reduction Strategy Paper (PRSP), so called PARPA, was able to reduce the absolute poverty from about 70 percent (1996/1997) to

⁶ The Priority Areas are: education, health; agriculture and rural development; basic infrastructure; good governance; and macroeconomic and financial management. The Complementary Areas are: employment and business development; social action; housing; mines; fisheries; tourism; industry; transport and communications; technology; the environment; and protection against natural disasters.

the actual 53 percent of population (2002/2003). Currently, the GoM is beginning to plan the new 2006/2010 PARPA.

Considering that the underlying objective of this indicator that ability to identify poverty-reducing spending is to analyze whether a country's spending is effectively tackling poverty and that there is no virtual poverty fund, the current classification system in GoM does not meet the requirement, thus, merits (C).

Indicator 7: Integration of medium-term forecasts.

Question: *How would you describe the application of outer-year estimates (medium-term) for spending?*

Benchmark: *(A) Integrated: Multi-year expenditure projections are integrated into the budget formulation process.*

General Assessment: *Benchmark is not met (B). There is a medium term expenditure guidance but it is not integrated in the budget formulation process. Some improvement is expected for the next MTEF, to be released next year.*

In 1997 Mozambique has initiated MTEF, supported by the Bank and DFID. However, the MTEF is not given high priority, rather it has been treated as an internal technical report and has not been publicly available. This lack of priority and publicly availability prevents the MTEF from being integrated into budgeting process, and from allowing a comparison of the pre- and post-relief pattern of poverty-reducing expenditure over time.

MTEF in Mozambique nominally include all sectors, though only five have some types of costing information (education, health, agriculture, roads and water). It includes recurrent expenditures of all ministries and capital expenditures for a few sectors. Its format is by economic and functional classification with 14 categories. Its current version covers only the central government, and comprises 6 years for expenditure and 10 years for revenue⁷.

However, the current MTEF in Mozambique is not given high priority nor sufficiently integrated into annual budgeting process, in particularly with respect to costing activities⁸. It is evidenced by two facts. First, the MTEF is disseminated internally by the Ministry of Finance and is not publicly available. Second, the MTEF is not prepared sufficiently in advance of annual budgeting process so it doesn't play any meaningful role in the budgeting process.

⁷ P. Le Houerou and R. Taliencio, An Analysis of Medium Term Expenditure Frameworks, African Region Working Paper Series, No. 28, February, 2002

⁸ P 7, Joint Review – 2004, Aide-Memoire, April 7, 2004

Recognizing these problems, the next MTEF will cover only three years of expenditure, on a rolling plan basis. The intention is that it will be approved by the Government in a way that it can really guide the budget formulation process.

In summary the current MTEF exercise in Mozambique is not sufficiently integrated into annual budgeting process, thus, the benchmark is not met.

Action Plan

Short-term measures

- Harmonize medium and long term planning and monitoring instruments: i) Insure integration among PES, PARPA and CFMP ii) Adapt the BdP to be the primary instrument for PARPA monitoring

Indicator 8: Evidence of budget execution problems–Arrears

Question: *What do you estimate as the level of the stock of expenditure arrears at the end of last financial year?*

Benchmark: *(A) Very few or none: Small stock of expenditure arrears, with little accumulation of arrears over the previous year.*

General Assessment: *Benchmark is met (A). Strong ex-ante control assures a small stock of expenditures arrears.*

In Mozambique's public expenditure system, payment arrears are negligibly low. The system provides for replenishment of funds against documentation of the use of the funds in the previous month—that is, monies are provided to spending units only upon production of the previous month's justified accounts. Since documentation of the past month's expenditures is often delayed or incomplete, allocations to ministries tend to lag, sometimes badly, leading to chronic under-spending. Moreover, Mozambique has not suffered from liquidity shortage. This strong replenishment system, along with sufficient currency liquidity, generates very few stocks of expenditure arrears.

The impact of strong ex-ante control system (replenishment system) is so strong that it actually has caused a problem of underspending. Like many francophone countries in Africa, Ministry of Finance is fully in charge of authorizing payments of all ministries and agencies. Spending agencies need to go through numerous steps of approval before authorizing payment, which often delays authorizing even legitimate spending, thus, causing a problem of underpayment.

Mozambique plans to introduce a new payment authorization process in which payments will be processed in the e-SISTAFE, overcoming the excessive administrative burden of the replenishment system, and underpayment phenomena. Under the new system, spending agencies will be given spending limit and this limit will be pre-registered in the e-SISTAFE. Within this limit, spending agencies will authorize payment without getting ex-ante approval

from MoF. While agencies will be given discretion to authorize their payment, no payment will be authorized by SISTAFE if the limit is exceeded.

In summary, with the strong replenishment system currently in place, the benchmark is met.

Indicator 9: Effectiveness of the internal control system

Question: How would you describe internal control system?

Benchmark: (A) Effective: Internal control is effective.

General Assessment: Benchmark is not met (B). Financial and human resources inadequacies makes it difficult to achieve an effective internal control system, although improvements were recently settled.

Mozambique's internal control system, inherited from Portuguese system, has very strong ex-ante control system of payment. However, it is fair to say that overall internal control system suffers from lack of financial resources and human capacity of Finance Inspectorate General (IGF), who is in charge of internal control, including internal auditing.

The IGF, attached to the MPF, is in charge of internal control, including responsibility for auditing of all public institutions. Its mandate, organizational structure and key operational policies are defined in the Decree No.40/99 of June 28, 1999. IGF is far from achieving its required level of coverage or professional capacity. Although every spending unit is supposed to have an internal audit department, only a few actually have them. Despite its weaknesses, the IGF was, until a few years ago, Mozambique's representative at the International Organization of Supreme Audit Institutions (INTOSAI). Its 1999 statute places it squarely within the MPF as an internal organ of that Ministry.

IGF applies INTOSAI auditing standards, and has a detailed Manual of Auditing Procedures for the Public Service, which describes in detail such matters as: concepts and types of audits; objectives of financial auditing; auditing standards; INTOSAI auditing standards; planning and execution of an audit; review of internal control; risks and materiality, evidence; audit reporting; as well as a detailed audit program. It also has a manual for the audit of state enterprises. IGF does not systematically feed results of its audits into the external audit, but only provides the Administrative Tribunal with such information as it requests.

However, IGF suffers from a lack of qualified staff and a dearth of financial resources, transportation equipments and computers that undermine its proper functioning. It used to have 60 professional staff. None of those holds an internationally recognized qualification, such as Chartered Accountant (ACA), or Certified Public Accountant (CPA). Staff at IGF, analyzed by qualification and department, comprises:

Table 4: Analysis of Staff at IGF

Inspeção Geral das Finanças/Internal Audit (IGF) - Analyzed by Qualifications/Departments									
Positions	RAF	DIOE	DIA	DAE	DITA	DT	Central Region Delegation	Northern Region Delegation	Total
PhD	-	-	-	-	-	1	-	-	1
Master Degree	-	-	-	-	-	-	-	-	-
Degree (<i>Licenciatura</i>)	-	4	1	1	1	2	1	3	13
Technician	9	16	5	6	-	3	24	10	73
Primary School	9	-	-	-	-	-	4	3	16
Total	18	20	6	7	1	6	29	16	103

Legend:

RAF - *Repartição de Administração e Finanças* (Secretariat of Administration and Finance)
DIOE - *Departamento de Inspeção aos Órgãos do Estado e suas Instituições* (State Institutions Inspection Department)
DIA - *Departamento de Inspeção às Autarquias* (Municipalities Inspection Department)
DITA - *Departamento de Inspeção aos Sectores Tributários e Aduaneiros* (Tax and Customs Inspection Department)
DT - *Departamento Técnico* (Technical Department).

Source: Mozambique Country Financial Accountability Assessment, December, 2001

On the other hand, some improvements should be pointed. Since 2004, the internal audit department (IGF) has its own budget line and therefore material and logistics conditions are expected to be better in a few years. Recently IGF was strengthened with 30 new hires. To improve the quality of internal control system, IGF is currently receiving technical assistance from the Swedish Development Agency (SIDA), and an action plan that seeks to enhance IGF capacity and to assert its role is now being designed and implemented.

In summary, although some measures were settled, internal control system remains very ineffective and changes in its procedures (formal and ex-ante control) will take some time to show effective results.

Action Plan

Short-term measures

- Review functions of internal institutions.
- Finalize proposal for institutional role and functioning of the external audit.
- Implement action plan for strengthening of internal audit functions at sectoral and provincial levels, for improvements in timeliness, quality and coverage of external auditing.

Medium-term measures

- IGF to work out strategic plan for establishing improved internal control in the ministries (2005) and provinces (2006)

Indicator 10: Tracking surveys are in use

Question: *Is internal control supplemented by public expenditure tracking surveys (PETs) that follow funds to the ultimate service provider or beneficiary?*

Benchmark: (B) *Yes, PETs have been tried, and are in the process of becoming a regular feature of the PEM system, or an alternative PEM system that can reliably track resource transfers (as defined in a) is being put in place.*

General Assessment: Benchmark is not met (C). *A pilot PET has been tried but there are no additional survey planned in Mozambique.*

Expenditure Tracking and Service Delivery Survey (2003) was the first, highly successful, in health sector, and other PETs might be conducted, following the successful experience. However, to date, the PETs cannot be classified as a “regular” exercise.

The Expenditure Tracking and Service Delivery Survey (ETSDS) of 2002 was a pilot survey of the primary health system to track the transfer of funds from the central government, to provinces, districts and health posts. The hypothesis was that delays in budget execution, as well as weak systems of control, with consequent scope for leakages and discretion in the allocation of resources, may adversely affect the quality and efficiency of service delivery. In fact the ETSDS found that record-keeping was so poor that it was impossible to determine whether there was leakage of funds between the different levels. It did, however, turn up evidence of leakage of drugs between the provincial and the district level. As mentioned above, the survey confirmed that the user charge system is inequitable, lacks transparency and creates scope for staff to pocket the moneys collected.

Finally, the survey found that only 80 percent of staff were actually in post at any one time. The survey, in sum, revealed important information about the system’s functioning and pointed the way to improvements. Overall the ETSDS was a successful venture and should be repeated in the health ministry and other ministries as a means of improving service quality.

However, to date, no additional PETs is scheduled in Mozambique, therefore, PETs is not yet a regular features of expenditure management system. Thus, the benchmark is not met.

Indicator 11: Quality of fiscal information

Question: *Is there a regular reconciliation of all government bank accounts (those held in the central bank and the commercial banks) with government's accounting records?*

Benchmark: *(A) It occurs satisfactorily in a timely and routine way.*

General Assessment: Benchmark is not met (C). *Given the number of active government accounts it is unlikely that the reconciliation is done in a proper and timely way. There are problems with the compliance of Central Bank's check compensation rules.*

The Government of Mozambique holds its bank account in the central bank as well as in numerous commercial banks. In the beginning of 2004, it was estimated that the GoM had almost 4,500 active bank accounts (of an estimated 12,000). Therefore, it is fair to conclude that satisfactory reconciliation of government bank accounts with accounting records does not occur, thus, the benchmark is not met. One of the reasons for this excessive proliferation is the lack of regulations for maintaining government accounts. Currently, the GoM is implementing a treasury single account.

Another point that should be stressed is related to the lack of compliance with Central Bank's rules of check compensation. In this case, besides practical difficulties given by the enormous amount of accounts, reconciliation takes a longer time because commercial banks often breach the regular compensation check period.

With the expected implementation of SISTAFE, all treasury accounts (central and provincial levels) will be brought to the Central Bank; opening an account will be ordered only by the treasury and therefore payments will be made exclusively by the e-SISTAFE. This will finally lead the GoM to have all its bank accounts reconciliation to be done on line.

Action Plan

Short-term measures

- Ensure e-SISTAFE captures all relevant public bank accounts as its rollout process to line-Ministries takes place.

Indicator 12: Regularity of timely internal fiscal reporting

Question: *When are the budget-tracking reports from line ministries, other spending units and the treasury received by the central financial authority?*

Benchmark: (B) *They are received between two weeks and four weeks of the relevant period.*

General Assessment: Benchmark is not met (C). *The Ministry of Planning and Finance takes almost 2 months to present quarterly reports. Nonetheless, most of the information is not sufficiently detailed on those reports, since line ministries are not able to timely prepare the information required.*

No direct information about regularity of timely internal fiscal reporting has been available to the mission team. However, it can be inferred from the fact that the Ministry of Planning and Finance (MPF) publishes quarterly reports usually within 2 months of the end of relevant quarters, which indicates that internal reports by spending units are not submitted to MPF within 4 weeks. Besides the timeliness and regularity, the quarterly budget execution reports need to be further improved in usefulness for decision-making and coverage.

These reports present actual expenditures, both current and investment, compared to the budget allocation (as modified during the year) according to the economic and territorial classifications. Actual expenditures are also reported following the functional and institutional classifications, but no comparison is provided with the corresponding budgetary allocation under these two classifications. Hence it is not easy to assess budgetary performance for, say, health, education or infrastructure, since the simple comparison with the budget figures published in the budget document may be misleading due to the adjustments introduced during the fiscal year.

Also, these reports do not meet the criteria of the HIPC Public Expenditure Tracking Assessment Guideline which stipulates that fiscal reports should cover at least 90 percent of line ministry spending by value since the budget coverage remains partial. Even though extra-budgetary operations including donor-funded programs are included in the budget, they are not reported in these reports.

Action Plan

Short-term measures

- Ensure that when the direct budget execution module of e-SISTAFE is implemented, and as the system rollout to line-Ministries is being done, all budgetary transactions are retrievable by the central financial authorities.
- Issue the 2005 first quarter budget execution report based on the SISTAFE generated data

Medium-term measures

- SISTAFE to be implemented in all ministries and provinces during 2006

Indicator 13: Regular fiscal reports track poverty reducing spending

Question: *What in-year reports are published for tracking budget performance?*

Benchmark: *(A) Good quality functional classification is presented: Good quality functional classification is reflected in the in-year budget reports.*

General Assessment: Benchmark is not met (B). *Broad functional categorization is not sufficient enough to allow assessment of the extent to which the overall government spending is pro-poor.*

Given the broad category of poverty-reducing spending definition, the fiscal reports, which show functional classification only at aggregate level, can identify and report poverty-reducing spending on a functional basis. However, this broad categorization is not sufficient enough to allow assessment of the extent to which the overall government spending is pro-poor. Also, there are issues of accuracy and usefulness of sub-function level information, for significant portions of expenditure is classified as “others.”

The quarterly budget execution reports present actual expenditures, both recurrent and investment, compared to the budget allocation (as modified during the year) according to the economic and territorial classifications. Actual expenditures are also reported following the functional and institutional classifications, but no comparison is provided with the corresponding budgetary allocation under these two classifications. Hence it is not easy to assess budgetary performance for, say, health, education or infrastructure, since the simple comparison with the budget figures published in the budget document may be misleading due to the adjustments introduced during the fiscal year.

Regarding functional classification, legal framework has both aggregate and sub-function level classification. However, data shows that significant portion of expenditure is classified as “others.” These phenomena attributes to the fact that spending agencies categorize their spending only by organization and Ministry of Finance reclassify them into function on ex-post basis.

Some improvements are expected with the implementation of a new function and sub-function classification for 2005, specially because line ministries will be required to properly identify their expenditures. However, only after the introduction of a programmatic classification a real leap can be expected. The program—instead of the agency—should be classified by functions and allow a better assessment of the extent to which government spending is pro-poor.

Indicator 14: Transactions are recorded in the accounts in a timely fashion.

Question: *What is the longest period between the end of the fiscal year and the routine booking of transactions?*

Benchmark: *(A) Routine transactions are entered into the main accounting system(s) within two months after the end of the fiscal year.*

General Assessment: Benchmark is met (A). *As a result of the end of the “período complementar”, the GoM is now able to record its transactions within two months after the end of the fiscal year.*

As SISTAFE is being implemented, the mission team was informed that the “período complementar” (complementary period) was reduced to two months in 2003 and to tentatively zero in 2004.

It is worth explaining the existence of two fiscal reports—Budget Execution Reports and State General Report — and the significant difference in the reporting amounts between them during a given fiscal year. Budget Execution Reports are usually prepared by the end of January, and it is believed that it only covers partially the government total spending for a given fiscal year. On other hand, State General Report is believed to cover almost 100 percent of total spending – considering only those who are controlled by the treasury thru the mechanism called “Operações de Tesouraria” - and is available after 6 months of the end of the fiscal year.

The reason why the Budget Execution Report covers only about 70 percent of spending has mostly to do with the reporting of donor-funded expenditures. Since donor-funded expenditures (other than those using quick-disbursing adjustment moneys) are not executed through the Government accounting system, the reports of their execution depend on a variety of sources, including data collected from donors themselves. These data in turn are incomplete. In addition, there are some "ministerial own-revenues" (or "off-budgets") which do not figure in the budget execution reports or in the budget.

Action Plan

Short-term measures

- Generate a single account for Finance and Education Ministries. SISTAFE to be implemented in Education starting March 2005. SISTAFE has already been implemented in Finance in Nov 2004. Implementation in Education in March 2004 will results in a single account for these Ministries

Indicator 15: Timeliness of audited financial information

Question: *How soon after the end of the relevant year is the audit report on the annual accounts presented to the public and/or the legislature?*

Benchmark: (B) *An audited record of the financial outturn should be presented to the legislature within twelve months of the end of the fiscal year.*

General Assessment: Benchmark is not met (C). *The Administrative Tribunal is unable to report to the National Assembly with the external auditing findings on the annual accounts within twelve months after the end of the fiscal year.*

Due to the severe lack of human resource capacity in the Administrative Tribunal (TA), which is responsible for independent audit of government accounts and financial statements, audited financial statement is available only about 20 months after the end of fiscal year.

The Administrative Tribunal is a part of the Mozambique's judiciary, and is the only court in its category. Unlike Anglo-Saxon type Superior Audit Institutions, the TA actually has the power, not only to investigate and report financial misconduct, but also to apply sanctions and impose punishment. Its jurisdiction extends throughout the Mozambican territory, including services and representation offices abroad.

In spite of these strong mandates and power, external audit in Mozambique suffers from serious delays. As a result, audited financial statements have lost its relevance and importance to serve as an accountability mechanism. The government annual financial statement is supposed to be lodged with the TA by December 31 of the flowing fiscal year. The TA is required to submit its report and opinion on the statements to the National Assembly by August 30 the following year, i.e., 20 months after the end of fiscal year. The Assembly has then 4 more months to study the report, extending the overall period to 24 months. For example, the *Conta Geral do Estado* for 1999, 2000, and 2001 became available to the public respectively, in early 2001, 2002, and 2003.⁹

This delay is largely due to the serious lack of human resource in the Administrative Tribunal. As of March 2001, the TA has only 13 staff assigned the to the post-audit function, of whom only eight has a formal accountancy or auditing qualification. The staff is not only small and under-qualified, but it is also under-paid, with salaries said to be below those to the staff of the government's internal audit department, IGF, in the Ministry of Finance.

The SISTAFE may be able to help changing this situation in a few years, since transparency and access to information will considerably turn easier the TA task. The new financial law—the SISTAFE law—prescribes that the audited account should be presented within 12 months of the end of the period. So, expectation is that the 2004 audited accounts will be released until the end of next year.

⁹ P 71. Mozambique Public Expenditure Management Review, December 2001, Report No. 22985-MOZ

Indicator 16. Efficiency and effectiveness of the public procurement system

Question: *To what extent does the public procurement system provide for efficient and effective use of public funds?*

Benchmark: *(A) An efficient and effective public procurement system exists: The procurement system promotes efficiency and effectiveness in the expenditure of public funds through clear and enforceable rules that promote competition, transparency, and value for money.*

General Assessment: Benchmark is not met (C). *There is no adequate regulatory framework, civil servants are not systematic trained, and as a result there is a high vulnerability to corruption.*

As evidenced by the Mozambique Country Procurement Assessment Report (CPAR)¹⁰ conducted in May, 2002, Mozambique' procurement system has serious institutional, legislative, and human resource weakness which have a serious negative impact on the use of government resources and those from donor and international organizations. These weaknesses affect every sector of public procurement and commercial activities.

Currently, GoM has no adequate legal and regulatory framework for procurement. Present legislation concerning procurement of goods and works is badly fragmented into various pieces of legislation, each of which is inadequate to guarantee an efficient implementation of public procurement. In addition, there are no regulations concerning procurement of services, apart of a few rules on the selection of consultants for design and supervision of civil works contracts. Finally, no new procurement laws and regulations have been released suitable to recent Government decentralization programs, thus effectively postponing any effective transfer of authority to the Provinces.

Consequently, corruption represents a serious problem in Mozambique. Issues due to the lack of a proper set of procurement regulations to which to conform and the consequent use of non transparent procurement practices such as subjective listing of contractors and suppliers have negative impact on project implementation and are probably the main reason behind the resistance to needed changes such as decentralization, delegation of authority and opening of the market to more active competition. Other major causes for the lack of transparency in public procurement are the lack of proper monitoring authorities, the absence of a code of Ethics and of proper incentives to denounce corruption.

One of the reasons for the lack of transparency and effectiveness in public procurement in Mozambique is a huge vacuum of professional expertise in public procurement area. Lack of human resources at provincial offices is a serious problem undermining the process of decentralization and de-concentration of procurement authority undertaken by the Government use of T.A. and focus on transmission of skills may somewhat compensate the

¹⁰ p 6-9. Mozambique Country Procurement Assessment Report Volume 1 (of 3), Summary of Findings and Recommendations, May 16, 2002

situation, but only on a short term basis. Until an adequate number of professional staff is created in all sectors related to procurement, there are no realistic chances that funds by the Government and donors will be timely and efficiently disbursed.

However, the GoM has made some progress in improving the transparency of public procurement system. For example, in April 2004, a procurement law enacted in 1996 which permitted bidders to make payments to procurement officers was abolished. Also, it is observed that donor efforts to improvement procurement at the ministerial level are helping to inculcate pockets of better practice.

Action Plan

Short-term measures

- Create a transparent and efficient procurement system - Approve procurement legislation.
- Prepare action plan to improve the procurement process and its review and audit procedures.
- Set up a National Commission for Procurement Reform.
- Establish regulatory body for public procurement.
- Strengthen the independent appeal function within TA.
- Establish minimum threshold amounts for contracts due for submission to the TA

Medium-term measures

- Audits of procurement in five major ministries.
- Decentralize procurement processes, including capacity building.
- Draft and adopt code of ethics.
- Implement modern procurement systems according to the international best practices based on new procurement regulation and in line with e-SISTAFE

ANNEX –The List of Reports Referred For Assessment

1. P. Le Houerou and R. Taliercio, *An Analysis of Medium Term Expenditure Frameworks*. Africa Region Working Papers, 2002. This may be found at the same site, document #49.
2. The Mozambique Public Expenditure Management Review (2001) (Report No. 22985-MOZ).
4. The PER (2nd phase): Sectoral Expenditures (2003) (Report No. 25969).
5. The Mozambique *Country Procurement Assessment Report* (May 2002), The World Bank.
6. The Mozambique – Economic Management and Private Sector Operation Credit No. 3709-MOZ, Release of second tranche document.
7. Mozambique: Report on Observation of Standards and Codes – Fiscal Transparency Module Update, August, 2002, the IMF.
8. The aide-mémoire of the Joint Review (15 donors plus World Bank plus Government, April 2004).
9. The Report of the committee on Public Finance Management (technical team 2.2) of the Joint Review, March 30, 2004.
10. The report of the thematic group on Public Finance Management -- backward look - March 29, 2004.
11. Mozambique Country Financial Accountability Assessment, December 2001, The World Bank.
12. Diploma Ministerial, March, 2001, Ministério do Plano e Finanças.
13. Relatório de Execução do Orçamento do Estado, 2002, Ministério do Plano e Finanças.
14. Relatório de Execução do Orçamento do Estado, 2003, Ministério do Plano e Finanças.
15. Relatório de Execução do Orçamento do Estado, Janeiro a Junho de 2004, Ministério do Plano e Finanças.
16. Balanço do Plano Económico e Social, I Semestre de 2004, Draft, Ministério do Plano e Finanças.
17. Conta Geral do Estado de 2003, Maio de 2004, República de Moçambique.
18. Metodologia para Elaboração das Propostas do Orçamento do Estado, Direcção Nacional do Plano e Finanças, Ministério do Plano e Finanças, Maio de 2004.
19. Orçamento do Estado para o Ano Económico de 2004, Ministério do Plano e Finanças.
20. Fiduciary Risk Assessment, September 2004, Oslo, Scanteam Analysts and Advisers.

Table 1: Public Expenditure Management AAP Indicators in Mozambique

	ASSESSMENT				
	Standard Benchmark	Desk Assessment	2001 Assessment	2003-04 Assessment	
FORMULATION					
COMPREHENSIVENESS					
1	Fiscal reporting adequately covers the Government Finance Statistics definition of the general government sector	A	B	B	A
2	Government activities are not funded through inadequately reported extrabudgetary sources to a significant degree	A	C	C	C
3	Budget outturn data are quite close to the original budget	B	B	B	B
4	Fiscal reports include grants projected to be provided by donors	A	B	B	B
CLASSIFICATION					
5	Budget expenditures are classified on an administrative, economic, and detailed functional or programmatic basis	B	B	B	C
6	Poverty-reducing expenditures are clearly defined	A	C	C	C
PROJECTION					
7	Multi-year expenditure projections are integrated into the budget formulation process	A	B	B	B
EXECUTION					
INTERNAL CONTROL					
8	There exists a small stock of expenditure arrears, with little accumulation of arrears over the previous year	A	A	A	A
9	Internal control is effective	A	A	A	B
10	Tracking surveys are in use, or are unnecessary	B	C	C	C
RECONCILIATION					
11	Satisfactory reconciliation of fiscal and banking records is undertaken routinely	A	B	B	C
REPORTING					
IN-YEAR REPORTING					
12	Internal fiscal reports are received within four weeks of the end of the relevant period	B	B	B	C
13	Good-quality classification of poverty reducing spending is reflected in the in-year budget reports	A	B	B	B
FINAL AUDITED ACCOUNTS					
14	Routine transactions are entered into the main accounting system (s) within two months of the end of the fiscal year	A	B	B	A
15	An audited record of the financial outturn is presented to the legislature within twelve months of the end of the fiscal year	B	C	C	C
NEW					
PROCUREMENT					
16	The procurement system supports efficiency and effectiveness in the expenditure of public funds through clear and enforceable rules that promote competition, transparency and value for money.	A			C
TOTAL NUMBER OF BENCHMARKS MET			3	5	4
Notes: Please shade cells in cases where the assessed indicator meets or exceeds the standard benchmark level					

Table 2: Overview of Technical and Donor Assistance in Public Expenditure Management in Mozambique

Donor/ Provider**	RECENT*/ONGOING assistance by major project		PLANNED assistance by major project	
	Description	Dates	Description	Dates
WORLD BANK	Public Sector Reform Project to aid for capacity building in the MPF and other ministries			
IMF	Assistance on Implementation of SISTAFE Tax Reform Assistance to SISTAFE reform			
Swedish Fund	Aid for Tribunal Administrativo			
Swiss	Providing funding for the consultants for SISTAFE projects			
Denmark	Providing funding for the consultants for SISTAFE projects			
Norway	Providing funding for the consultants for SISTAFE projects			
European Commission	Providing funding for the consultants for SISTAFE projects			
DFID	Providing funding for the consultants for SISTAFE projects			
Holland	Providing funding for the consultants for SISTAFE projects			

* Within the last 12 months

Table 3: Implementation Status of Actions to Strengthen Tracking of Poverty-Reducing Public Spending: Mozambique

#	Actions ¹	Relates to Indicator ²	Timing (S/M) ³	Status (FI/II/NS)*	Date Achieved**	Comments***
Actions to strengthen budget formulation						
1	Improve budget preparation by introducing more detailed functional classification	5	S	FI	June '04	Decree N. 10/2001 introduced a more detailed functional classification. 2002 Budget and budget execution report were prepared using the broad categorization of this classification, not the detailed categorization. Decree n. 23/2004 approved new functional classification as well as introduced other classifications (i.e. resource source). 2005 Budget is expected to be compatible with these new classification.
2	Gradual inclusion in the budget of self-generated revenue and expenditures	2	M	II		2005 Budget is expected to be including some self-generated revenues, particularly some collected by Central Government in health and those related to the passport issue.
3	Include tax expenditures (2006 Budget)	2	M	NS		There are some tax expenditures related to payroll system of DGI and DGA that should be brought in to the Budget.
4	Budget preparation and execution based on current prices instead of constant prices	7	S	FI	March '03	Law 9/2002 established that the budget should be prepared based on current prices (applied beginning in the 2003 budget).
5	Revise and update the Chart of Accounts for use in preparation	5	M	II	June '04	Decree N. 23/2004 revised the Chart of Accounts and introduced the double-entry system that is expected to be fully implemented in the execution of 2005 budget.
6	Increase level of information on external assistance in the budget	4	S	II		Since 2003 budget preparation some donor-funded expenditures were identified and brought in to the budget. For next year, 2005 budget, another step are to be made by the inclusion of SISTAFE in to the budget. On Provincial level, on the other hand, the rule is to have external assistance outside the budget.

Actions to strengthen budget execution						
1	Introduce the use of modern accounting principles and techniques. Register all stages of public expenditure (commitment, liquidation, payment) in an integrated information system	8	M	II		Law n. 9/2002, established the SISTAFE, an integrated financial management system, which has been developed in the Ministry of Planning and Finance. Technical specifications were prepared in October/November 2002. Decree of regulation, n. 23/2004, was approved last June. Implementation is expected to begin by the end of 2004 in <i>modus operandi</i> of fund in advance. On the 2nd semester of 2005, budget commitment and accounting registration is expect to begin.
2	Improve treasury financial control by rationalizing/reducing government banking accounts	11	M	II		Since 2002, government bank accounts have needed MPF approval to be oppened. Inventory of government bank accounts were completed by the end of 2003. Related to SISTAFE implementation, a virtual single treasury account is expected for the 2005 year.
N						
Actions to strengthen financial reporting						
1	Eliminate complementary period in the budget execution.	14	M	FI	December '03	The complementary period was abolished for the 2004 fiscal year.
2	Reduce the rendering period of government accounts	15	S	II		Law n. 9/2002 especifices that General Accounts of State should be presented to the Congress until May of next year, in opposite of 18 months period that was in place up to now.
N						
Actions to strengthen public procurement						
1	New legislation will be developed during 2004 to modernize procurement.	16	M	II		CPAR done 2002, adopted by Government in 2003. New legislation will be developed until the end of 2004 to modernize procurement. This will be presented to the Bank and the donors during FY 2005, in the context of the first PRSC
2						
N						

¹Actions reflect the descriptions held by FAD-PREM in the March 2003 Board Paper and should relate to the earlier action plans developed in prior A/

² Show to which of the 16 indicators from the AAP the action chiefly relates.

³ S=Short term action (within 12 months of action); M=medium term action.

* FI=fully implemented, II=Implementation initiated, NS=Not started (FI in blue reflects status as FI at the time of March 2003 board paper. Mission team should update the status for all other actions)

re action status in the March 2003 Board Paper.

*** Comments may explain any changes in the nature of proposed actions or changes to the timing of their implementation.

