



REPUBLIC OF MOZAMBIQUE

TECHNICAL ASSISTANCE REPORT — REQUIREMENTS FOR IMPROVING BUDGETARY EXECUTION CONTROLS

January 2023

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Republic of Mozambique

*Requirements for Improving
Budgetary Execution Controls*

**Israel Fainboim, Franselmo Costa, Mauro Fridman,
and Francisco Moreno**

INTERNATIONAL MONETARY FUND

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Israel Fainboim, Franselmo Costa, Mauro Fridman, and Francisco Moreno

May 4, 2016

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Contents

Preface.....	6
Executive summary.....	7
I. Introduction	12
II. Requirements for improving budget execution controls.....	13
A. Budget preparation.....	13
B. Controls on budgetary and financial execution	18
C. CUT coverage.....	27
D. Internal and external controls	32
E. Information and communication technology	32
F. Legal framework for budgetary execution	39
G. Human resource training.....	40

ACRONYMS AND ABBREVIATIONS

AT	Autoridade Tributária [Tax Authority]
BM	Banco de Moçambique [Bank of Mozambique]
CBS	Catálogo de Bens e Serviços [Goods and Services Catalogue]
CEDSIF	Centro de Desenvolvimento de Sistemas de Informação de Finanças [Finance Information Systems Development Center]
CEF	Cadastro Único de Fornecedores [Unified Suppliers Registry]
CFMP	Cenário Fiscal de Médio Prazo [Medium-term Fiscal Scenario]
CGE	Conta Geral do Estado [General State Account]
CUT	Conta Única do Tesouro [Single Treasury Account]
CUT-ME	Conta Única do Tesouro - Moeda Estrangeira [Single Treasury Account – Foreign Currency]
CUT-MN	Conta Única do Tesouro - Moeda Nacional [Single Treasury Account – National Currency]
DAF	Direcção de Administração e Finanças [Administration and Finance Department]
DEAE	Direcção de Estudos e Análise Económica [Studies and Economic Analysis Department]
DNCP	Direcção Nacional de Contabilidade Pública [National Accounts Department]
DNPE	Direcção Nacional de Património do Estado [National State Property Department]
DNPO	Direcção Nacional de Planificação e Orçamento [National Planning and Budget Department]
DNPS	Direcção Nacional de Previdência Social [National Social Security Department]
DNT	Direcção Nacional do Tesouro [National Treasury Department]
e- CAP	Módulo de Cadastro de Pensionistas [Pensioner Register Module]
e-CAF	Módulo de Cadastro de Funcionários [Staff Register Module]
e-Folha	Sistema de Pagamento de Salários [Wage Payment System]
e-SISTAFE	Sistema Informático do SISTAFE [SISTAFE Information Technology System]
e-Tributação	Sistema de Administração Tributária [Tax Administration System]
FAD	IMF Fiscal Affairs Department
FIPAG	Fundo de Investimento e Património do Abastecimento de Água [Water Supply Investment and Property Fund]
GdM	Governo de Moçambique [Government of Mozambique]
GFP	Gestão das Finanças Públicas [Government Finance Management]
IGEPE	Instituto de Gestão das Participações do Estado [State Shareholdings Management Institute]
IGF	Inspeção Geral de Finanças [General Tax Inspectorate]
IMF	International Monetary Fund
INSS	Instituto Nacional de Segurança Social [National Social Security Institute]
IPSAS	International Public Sector Accounting Standards
ISPC	Imposto Sobre Pessoas Coletivas [Corporation Tax]
IT	Information technology
IVA	Imposto sobre o Valor Agregado [Value-added Tax (VAT)]
JUE	Janela Única Eletrónica [Single Online Window]
MAF	Manual de Administração Financeira [Financial Management Manual]
MEDH	Ministério da Educação e do Desenvolvimento Humano [Ministry of Education and Human Development]
MEF	Ministério de Economia e Finanças [Ministry of Economy and Finance]
MEO	Módulo de Elaboração Orçamental [Budget Preparation Module]
NUIT	Número Único de Identificação Tributária [Single Tax Identification Number]
OE	Orçamento do Estado [State Budget]
PdA	Plano de Acção [Plan of action]
POE	Proposta do Orçamento do Estado [State Budget Proposal]

REO	Relatório de Execução Orçamental [Budget Execution Report]
SGRH	Sistema de Gestão de Recursos Humanos [Human Resource Management System]
SICR	Sistema Interino de Cobranças de Receitas [Temporary Revenue Collection System]
SISTAFE	Sistema de Administração Financeira do Estado [State Financial Management System]
SNPO	Sistema Nacional de Planificação e Orçamento [National Planning and Budget System]
TA	Tribunal Administrativo [Administrative Tribunal]
UGB	Unidade Gestora Beneficiária [Beneficiary Management Unit]
UGE	Unidade Gestora Executora [Executive Management Unit]

PREFACE

In response to a request from the authorities of the Republic of Mozambique, made through the Ministry of the Economy and Finance (MEF), a mission of the Fund's Fiscal Affairs Department (FAD) visited the city of Maputo, Mozambique, from April 20 to May 4, 2016, to provide technical assistance on strengthening budgetary execution controls. The mission consisted of FAD Chief, Israel Fainboim, supported by IMF consultants Franselmo Costa, Mauro Fridman, and Francisco Moreno.

The mission held meetings with Isaltina Lucas, Vice Minister of Economy and Finance, and with Domingos Lambo, Permanent Secretary of the MEF. It also met with the directors and advisers of the main government organizations, including: Momad Piaraly Jutha and Cristina Matusse, National Director and National Deputy Director of Planning and Budget, respectively; Mastalino Mastala, Deputy Director of the National Treasury Department (DNT), and other DNT staff; Tomas Dimande and Manuel Joaquim Matavele, respectively National Director and Deputy National Director of Public Accounts; Vasco Correia Nhabinde and Augusta Maita, National Director and Deputy National Director of Economic and Financial Studies; Jacinto Mário Muchine and Tricamo Azize Taju, Deputy Directors of the Finance Information Systems Development Center (CEDSIF), and other CEDSIF staff; Carolina Pessane, Inspector General of Taxation; Augusto Sumburane, Director-General, and Julião Langa, Deputy Director-General, of the National Social Security Institute; Hermógenes Mário, Director of the State Shareholdings Management Institute (IGEPE); Altino Mavile (FIPAG); and other staff of the Tax Authority (AT).

In the Ministry of Education and Human Development, the mission held a meeting with Permanent Secretary Manuel Rego, and with the Director of Administration and Finance José Seiuane Júnior. In the Bank of Mozambique, the mission met with Office Chief Carlota Miguel Nhampule, and Felizardo Balate, of the Payment Systems Department. It also visited the Administrative Tribunal (*Tribunal Administrativo – TA*), where it held a meeting with Accountants General Moisés Amaral and Jeremias Zuande, and with Deputy Accountant General Pedro Facla. The mission also met with the group of international partners supporting the State Financial Management System (*Sistema de Administração Financeira do Estado – SISTAFE*) to discuss the work program and the conclusions of the work undertaken.

We would like to express our gratitude to the MEF managers, technical experts and consultants for their constant participation in our meetings and the support provided by them, particularly Jacinto Muchine and Manuel Joaquim Matavele, who provided the mission with valuable information. The mission is also grateful for the frank and open exchange of points of view on all matters discussed.

We also thank Esther Palacio, Technical Assistance Coordinator of the IMF Representation, for her active participation and very efficient support both on technical matters and in terms of mission coordination; and Beatrice Rangel, who assisted us with mission logistics and printing tasks.

EXECUTIVE SUMMARY

A technical assistance mission from the Fiscal Affairs Department (FAD) of the International Monetary Fund (IMF) visited Mozambique to assist in strengthening the government's budgetary execution controls. The main objectives of the control and monitoring of execution include: making sure fiscal targets are met; avoiding overdue payments; and preventing fraud and misappropriation of funds.

Over the last decade, Mozambique had already implemented a series of reforms aimed at controlling budget execution. These include definition of the budgetary execution phases; the establishment of procedures and the necessary documents in each stage of execution; the development of the online State Financial Management System (e-SISTAFE); the development (as yet incomplete) of a Single Treasury Account (*Conta Única do Tesouro* – CUT); and the segregation of functions for authorizing each expenditure stage, among other things.

Progress is continuing in the period 2015-2016, to expand budgetary execution through e-SISTAFE, which includes the registration of civil servants in the online staff register module (e-CAF), and the payment of most of the corresponding wages directly in a more streamlined manner; and the introduction of additional controls to prevent fraud. The following advances have been made:

- Launch of the e-taxation (*e-tributação*) project, with the signing of the new project implementer contract in April 2016. This initiative aims at the development of data migration from the single tax identification number (NUIT) system, for e-taxation; and the integration of e-taxation with the commercial banks – collection network; and the process for integrating revenue stages (launch, settlement, and collection) in e-taxation, in relation to income taxes (IR) and other taxes.
- Up to March 31, 2016 The expansion of e-SISTAFE involved 1,388 beneficiary executing units (*Unidades Gestoras Beneficiárias* – UGBs) (637 at the district level, 584 in the provinces, and 167 at the central level), to execute the State budget through e-SISTAFE. The target for end-2016 is 1,652 UGBs corresponding to 84.0% of the total. This deconcentration will make it possible to execute 65.3% of total expenditure directly.
- The implementation of the wages and other remunerations payment system included the registration in e-CAF of 292,028 government employees and agents (*funcionários e agentes do Estado* – FAEs) by March 30, 2016. Of this total, 285,265 were processed through the *e-Folha* online payroll system and 6,763 through parallel systems. Of the total number of FAEs, 291,629 were paid directly (99.86% of the total number of FAEs in e-CAF), corresponding to 92.3% of the target of 315,699 FAEs by December 2016.
- The rationalization of public expenditure on wages and remunerations was made by implementing a proof of life test, using the biometric identification in e-CAF, which covered 300,406 registered FAEs, equivalent to 99.7% of the 301,153 existing up to June 30, 2015.
- Similarly, to improve the pension payment process, the collective payment function was customized in the budget execution module (*Módulo de Execução Orçamental* – MEO). This function makes it possible to pay creditors on a mass basis, using a single administrative process in e-SISTAFE, which improves control of budget execution.
- In the State property module (*Módulo do Património do Estado* – MPE); improvements were made to the performance of the online system for the Unified Register of Public Works Contractors, Goods Suppliers and Service Providers (*Cadastro Único de Empreiteiros de Obras Públicas, Fornecedores de Bens e Prestadores de Serviços* – CEF); and improvements to the Goods and Services Catalogue (*Catálogo de Bens e Serviços* – CBS) by developing functions that allow for the life-cycle management of property items according to international standards.
- To combat fraud, measures were implemented and procedures approved by Ministerial Decree (DM) No. 91/2015 of September 18, which introduces new rules for submitting invoices and registering bank accounts in e-SISTAFE, together with the development of functions for consolidating systemic security processes.

Nonetheless, a number of fragilities in the controls meant that management had difficulties in achieving the fiscal targets set for the 2015 budget execution, and also in preventing payment arrears from accumulating.

Payment arrears are inconvenient both for the public sector and for government suppliers and service providers; and they are particularly damaging for the small and medium-sized enterprises that find it harder to obtain working capital through commercial loans.

The mission noted that the fiscal targets were not achieved in 2015; and that there was a significant accumulation of payment arrears (relating to VAT reimbursements and teacher overtime pay)—situations that indicated a number of fragilities in budget execution that need to be corrected.

The main weaknesses identified by the mission in relation to execution control include:

- Overestimated revenue and underestimated expenditure in FY2015, which could be explained partly by a failure to anticipate the economic slowdown that occurred during the year.
- Incomplete coverage of the State budget, which does not include all autonomous entities (particularly the National Social Security Institute (INSS)), projects financed with external assistance, and part of the internally generated funds of government entities.
- Just under one quarter of public expenditure in the State budget is executed through advances of funds, i.e. indirectly in e-SISTAFE, mostly relating to pension payments.
- The failure to implement the collection network, including the establishment of a single collection document to ensure the transfer of funds paid by the taxpayer directly in the CUT and duly classified, which prevents the National Treasury Department (*Direção Nacional do Tesouro – DNT*) from implementing the financial program on a more streamlined basis.
- Absence of a legal definition of late payment, and of the appropriate periodic issuance of reports on payment arrears, not only for the entities that execute their expenditure through e-SISTAFE, but also for those that do so outside that system.
- Recording of the phases of budget execution simultaneously or quasi-simultaneously in e-SISTAFE by government personnel. Nonetheless, the appropriation process is restricted by the monthly financial quota set by the DNT for each UGB (divided by weeks), based on the availability of existing funds. This prevents e-SISTAFE from fully appropriating the pre-existing commitment for the State in the fiscal year. Without this view, the existing administrative process on this liability is not reflected in e-SISTAFE, and the central agencies are unaware of the reality of commitments assumed by the UGBs.
- Financial programming consists of the Treasury Budget (conceptually defined as a commitment plan), and the Treasury Plan (conceptually defined as a cash plan) which in practice are not functioning as envisaged in the SISTAFE Regulatory Decree. These instruments have a monthly horizon and are quite rigid, failing to reflect the necessary cash flow dynamics. In practice, the cash plan is functioning as a tool for rationing available funds.
- A CUT (Single Treasury Account), which has been implemented albeit in fragmented form, with a large number of physical accounts held in commercial banks and at the Bank of Mozambique (BM). The coverage of the CUT is also incomplete, since it does not include any of the entities' internal revenues and excludes some external funds and a number of accounts that make advances of funds.
- The failure to record in e-SISTAFE information from the revenue phases that occur in the AT and in the main State entities that manage earmarked and internally generated revenue, prevent the DNT from implementing financial programming more consistently on a forward-looking basis.
- The property module is fundamental for the management of government commitments. Nonetheless, acquisitions and contracts are currently treated outside e-SISTAFE, which prevents the central agencies from having the information needed for public expenditure management.

- The treatment used to manage wage and salary expenditure of government employees and agents (FAEs) should be extended to the management of pensioners, irrespective of the conceptualization of the pension system to be adopted.

Table 1 sets out a plan of action containing the main priority recommendations for correcting the problems mentioned.

Table 1 – Plan of Action for Improving Control of Budgetary Execution 2016 – 2017

Action	2016 - Q			2017 - Q			
	II	III	IV	I	II	III	IV
A. Preparation of the budget							
1. Use econometric techniques and other revenue projection methodologies to be applied in preparing the 2018 State budget proposal (<i>Proposta do Orçamento do Estado – POE</i>), distinguishing revenue projections made from the targets set.							
2. Effectively implement the Special Financial Regime (Article 4 of the SISTAFE regulation) and its requirements for extending the coverage of the State budget to autonomous institutes and all entities that generate their own funds.							
B. Control of budget execution							
1. Adopt an annual commitment plan, with a quarterly breakdown, by source of funding and by aggregate expenditure group (second level of the economic expenditure classifier) (Article 80 of the SISTAFE Regulatory Decree). Implementation of two sectoral pilot schemes for 2016 and the whole of the State budget in 2017.							
2. Establish an annual cash plan (rolling 12 months), with a monthly breakdown (pursuant to Article 81 of the SISTAFE Regulatory Decree). Implementation of two sectoral pilot schemes for 2016 and for the whole of the State budget in 2017.							
3. Revenue projection for financial programming should be the responsibility of the AT and the entities with the largest internal revenues. Expenditure programming for the same purpose should be the responsibility of all UGBs.							
4. Create a Financial Programming Committee consisting of DNT, National Accounts Department (DNCP), National Planning and Budget Department (DNPO) and the Tax Authority (AT), with the BM as an invited guest. The committee should meet every week and discuss the cash plan prepared by the DNT for the following week and the rest of the month.							
5. The Financial Programming Committee should review revenue projections for the year every month, based on information on amounts already collected.							
6. Conduct an audit on overdue payments throughout the public sector, under the auspices of the General Tax Inspectorate (<i>Inspecção Geral de Finanças – IGF</i>), to be delivered on June 30, 2016.							
7. Prepare a plan for clearing the backlog of overdue payments, for June 2016.							
8. Report on overdue payments every month.							
9. Include in a higher level regulation the obligation to deliver the expenditure commitment note to the supplier.							
C. CUT (Receipts and payments)							
1. Develop and implement a plan to progressively increase the coverage of direct budgetary execution.							

2. Publish information on the public sector's physical bank accounts (and the balances thereof), both inside and outside the CUT, in the BM, and in the commercial banks; and prepare and implement a gradual plan for closing accounts outside the CUT.

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Action	2016			2017			
	II	III	IV	I	II	III	IV
D. Legal framework for the control of budget execution							
1. Include a guideline in a Council of Ministers decree to ensure the appropriation covers the whole commitment for the fiscal year, considering the specifics of each aggregate expenditure group.							
2. Define late payment in a Council of Ministers decree.							
3. Issue a decree to harmonize inconsistencies between the SISTAFE Law, Law 15 of 2002 and Law 2 of 2006 in relation to the revenue phases, for the purpose of establishing a single collection network.							
E. Internal and external controls							
1. Circulate the opinion on the General State Account (<i>Conta Geral do Estado</i> – CGE) in time to correct deviations from execution in the State Budget Proposal. It is recommended that this be implemented for the 2017 CGE.							
F. Technological support of execution control							
1. Prioritize development and implementation of the e-taxation module in the collection network segment. It is recommended that a pilot scheme be implemented in 2016, with roll out for all revenues in 2017.							
2. Prioritize development and implementation of the e-property module, implementation of a pilot scheme is recommended in 2017, with coverage for all UGBs as from the 2018 State budget.							
3. Prioritize the development and implementation of the pensions management module, implementation of a pilot scheme is recommended in 2017, with coverage of the entire State budget as from the 2018.							
G. Training							
1. Continue the training for revenue projections that began in 2016, including training on econometric models.							
2. Develop training in public accounts, public finance, econometrics, cash flow management and logistics (procurement, contracts, stock control).							

I. INTRODUCTION

To identify the weaknesses in budget execution control, the mission organized this issue into seven areas or types of requirements for exercising supervision:

- Budget preparation: a full-coverage and credible/prudent budget (in which revenues are not overestimated and/or expenditures underestimated) is a requirement that could prevent the emergence of payment arrears;
- Budget execution control mechanisms: adequately defined execution stages (and a definition of payment arrears); adequate recording of the stages, the presence of rigorous legal, procedural, and documentary control systems at each stage; segregation of functions for the control, recording, monitoring, and periodic reporting of arrears; preparation, updating, and use of a commitment plan consistent with the budget and with the cash plan, taking account of inputs from the main revenue collection entities and those that execute expenditure, respectively, are requirements for maintaining rigorous control of execution;
- A full-coverage CUT, operating efficiently: the existence of a full coverage CUT, with minimal use of other bank accounts, supported by a solid accounts chart and streamlined operation, which minimizes the float and payments through advances of funds, are also key requirements for controlling execution and avoiding arrears.
- Adequate support for mechanisms to control execution through e-SISTAFE: e-SISTAFE should aim to incorporate the largest possible number of control mechanisms mentioned within the same systems, since this increases the transparency and efficiency of the control;
- Efficient internal control and robust external audit are also necessary for controlling execution;
- A legal framework that requires the use of the aforementioned control mechanisms and specifies sanctions for noncompliance is another requirement for effective control;
- Lastly, for adequate use of the aforementioned tools and mechanisms, the civil servants involved need training, particularly in a country like Mozambique, which has been introducing public finance management reforms only recently and very rapidly.

The following chapters identify the fragilities and make recommendations for correcting them.

II. REQUIREMENTS FOR IMPROVING BUDGET EXECUTION CONTROLS

A. Budget preparation

Diagnostic assessment

1. **Optimistic revenue projections and pessimistic expenditure forecasts when preparing the budget can lead to payment arrears.** Most countries have found it difficult to anticipate changes in the phase of the business cycle and in commodity prices, and hence foresee the public-finance effects of such changes. In an adverse economic situation, there is a greater chance of overestimating revenue and generating payment arrears.¹
2. **Prudent budgeting requires not only political commitment, but also technical capacity.** Aside from the adoption of principles of prudence (established in fiscal regulations, methodologies, and/or documents), and a willingness at the top level of government to fulfill those principles, it is essential to have the tools and knowledge needed to prepare fiscal projections that are consistent with different macroeconomic scenarios and provide a higher degree of predictability.
3. **Projecting revenue and expenditure is a relatively recent activity in Mozambique, and is being strengthened, although it is still based on the application of primary criteria and instruments.** Staff involved in this exercise, at the Tax Authority (AT) and the MEF Economic and Financial Studies Department (DEEF), work in Excel spreadsheets, adopting the following criteria to fulfill their tasks:

Revenue

- The AT bases its revenue projection on the values observed over the last five years and hence calculates a simple average that is adjusted according to the macroeconomic parameters defined by the DEEF (GDP and inflation), and the estimated tax impact of new firms entering the market. In the case of macroeconomic parameters, it is important to note that these are discussed with the Statistics Institute, but not with the Bank of Mozambique. The projections prepared by the AT are reviewed by the MEF, to be adjusted according to the targets defined in the government's current five-year program.²
- Internally generated revenues are estimated from the projections prepared by the entities in question, and compared with revenues collected in recent years to verify their feasibility.

Expenditures

- The projection of expenses on goods and services takes account of expenditure executed in previous years and the inflation parameter.
- The wages and salaries expenditure projection takes account of information from the previous year on government employees and agents registered in the corresponding online cadaster (e-CAF), adjusted for expected inflation and a delta that reflects productivity growth in the economy. At end-2015, a proof of life exercise was carried out to verify that the government employees and agents registered in e-CAF actually exist. This will make it possible to eliminate fraud, economize on resources, and estimate the expenditure really needed for wages more precisely.

¹ In Mozambique, the freezing of a provisional reserve, known as a "*cativo*" (as discussed below), can prevent payment arrears accumulating as a result of overestimated revenues. However, this is not a good practice, because it does not allow for adequate expenditure planning; it leads to an accumulation of expenditure at the end of each period; and it reduces the budgetary decision-making power of the Assembly of the Republic.

² The AT recently received training from Spanish Cooperation on the fundamentals of and tools for analyzing time series as applied to revenue collection.

- The projection of pensions took account of the inflation parameters, information on pensioners from the previous year, and the projected increase in their number. A proof of life exercise will be conducted in 2016 on pensioners, seeking the same results that were attained with the proof of life test for government employees and agents.
- The projection of investments took account of external financing forecasts and the forecasts provided by the entities during the work related to the medium-term fiscal scenario.

4. **The adverse change in the macroeconomic scenario observed in 2015 was not foreseen when that year's budget was being prepared.** While the 2015 State Budget Proposal (the proposals are documents that accompany and provide a basis for the annual budget bill) estimated GDP growth of 8.5% for the year, the rate actually recorded was 6.3% (roughly 1 percentage point less than in previous years). Moreover, while average inflation for 2015 (3.5%) was below the 5.1% forecast, cumulative inflation was 10.5% (see Table 2). The 2015 State budget proposal does not contain information on other macroeconomic parameters, or on the calculation methodologies used (as was also the case in the proposals of earlier years).

Table 2. Macroeconomic variables. Comparison between results actually recorded and those forecast in the annual budget laws

	2013		2014		2015		2016	
	Previsão	Real	Previsão	Real	Previsão	Real	Previsão	Real
Crescimento Real do PIB (%)	8	7,4	8	7,2	8,5	6,3	7	-
Inflação média anual (%)	7,5	4,2	5,6	2,3	5,1	3,5	5,6	-

Note 1: In 2015, the value of gross VAT collected is MT 50,434.4 million, after deducting MT 5,166.4 million in respect of VAT reimbursements.

Note 2: The values for 2015 are not definitive and are subject to revision.

Sources: State Budget Proposals 2013, 2014, and 2016; Citizen Budget 2015; National Accounts, fourth quarter 2015; website of the National Institute of Statistics (<http://www.ine.gov.mz>).

5. **Thus, in 2015, certain revenue items were considerably overestimated.** Revenue actually obtained from taxes on goods and services was 85% of the amount initially approved in the 2015 budget, and earmarked revenue came in at 87.4% (see Table 3).

Table 3. State revenues. Comparison between revenue collected and initially approved budget, 2013-2015

MT million

Receitas do Estado	2013			2014			2015		
	Orcamento Anual	Realização Jan-Dez		Orcamento Anual	Realização Jan-Dez		Orcamento Anual	Realização Jan-Dez	
	Valor	Valor	%	Valor	Valor	%	Valor	Valor	%
Receitas Correntes	111.144,8	123.284,2	110,9	144.184,2	153.358,7	106,4	157.520,4	151.507,9	96,2
Receitas Fiscais	95.522,5	108.149,8	113,2	126.558,0	135.005,5	106,7	133.009,3	128.396,2	96,5
Impostos s/ o Rendimento	33.778,3	49.387,5	146,2	53.632,8	63.202,2	117,8	51.411,1	57.929,8	112,7
Impostos s/ Bens e Serviços	56.695,6	55.217,1	97,4	67.560,1	67.660,8	100,1	75.178,9	63.896,6	85,0
Outros Impostos	5.048,6	3.545,2	70,2	5.365,0	4.142,5	77,2	6.419,3	6.569,6	102,3
Receitas não Fiscais	8.895,7	7.899,6	88,8	9.405,0	9.655,2	102,7	11.360,2	11.616,3	102,3
Das quais Receitas Próprias	3.497,2	3.980,2	113,8	3.297,0	5.213,4	158,1	4.437,4	6.179,9	139,3
Receitas Consignadas	6.722,1	7.234,8	107,1	8.221,2	8.698,0	105,8	13.150,9	11.495,4	87,4
Receitas de Capital	2.817,2	3.623,5	128,6	3.187,4	2.884,9	90,5	3.187,4	3.130,7	98,2
Total de Receitas	113.962,0	126.907,7	111,4	147.371,6	156.243,6	106,0	160.707,8	154.638,6	96,2

Note 1: In 2015, the value of gross VAT collected is MT 50,434.4 million, after deducting MT 5,166.4 million in respect of VAT reimbursements.

Note 2: The values for 2015 are not definitive and are subject to revision.

Sources: State Budget Laws 2013, 2014, and 2015; State Budget Execution Reports 2013, 2014 and 2015.

6. **In 2015, while expenditure in general has not been significantly underestimated, execution rates were low for certain items.** Suffice it to mention debt service (see Table 4) where execution surpassed that initially projected in the budget by 9.5%. This may have occurred because of unexpected changes in the exchange rates of the currencies in which the debt is held.³ In terms of execution rates, the case of investment stands out (70.5% execution), particularly its external component (42% execution). The 2015 State Budget Execution Report explains this low rate by the fact that investment projects registered in the 2014 State budget were being executed in the first four months of the year.

³ The 2015 State Budget Execution Report does not contain explanations on this topic, because it compares execution with the updated 2015 budget; and, in the case of debt service, there are no differences between the two.

Table 4. State expenses. Comparison between execution and initially approved budget, 2013-2015

MT million

Despesas do Estado	2013			2014			2015		
	Orçamento Anual	Realização Jan-Dez		Orçamento Anual	Realização Jan-Dez		Orçamento Anual	Realização Jan-Dez	
	Valor	Valor	%	Valor	Valor	%	Valor	Valor	%
Despesa de Funcionamento	105.530,0	109.803,3	104,0	140.121,5	131.510,3	93,9	143.245,5	134.447,6	93,9
Despesas Correntes	96.961,8	95.131,7	98,1	115.271,1	116.545,1	101,1	119.838,6	117.101,7	97,7
Despesas com Pessoal	48.809,1	49.514,9	101,4	56.958,7	59.830,8	105,0	64.441,4	64.092,1	99,5
Bens e Serviços	18.456,7	18.724,5	101,5	25.017,6	25.108,4	100,4	24.495,1	22.452,7	91,7
Encargo da Dívida	5.622,4	3.976,6	70,7	6.347,0	5.231,1	82,4	6.922,8	7.577,4	109,5
Transferências Correntes	15.904,5	15.401,4	96,8	18.077,5	18.355,1	101,5	19.279,9	19.858,0	103,0
Subsídios	3.371,9	3.371,3	100,0	2.671,3	2.671,3	100,0	3.157,1	2.213,4	70,1
Outras Despesas Correntes	4.797,2	3.900,4	81,3	5.865,8	5.170,6	88,1	1.340,4	745,8	55,6
Exercícios Findos	0,0	242,6	-	333,2	177,8	53,4	201,9	162,3	80,4
Despesas de Capital	8.568,2	14.671,6	171,2	24.850,4	14.965,2	60,2	23.406,9	17.345,9	74,1
Bens de Capital	301,9	342,3	113,4	394,4	236,6	60,0	513,2	400,3	78,0
Operações Financeiras	8.266,3	14.329,3	173,3	24.456,0	14.728,6	60,2	22.893,7	16.945,6	74,0
Despesa de Investimento	69.425,0	63.051,9	90,8	100.769,9	75.702,5	75,1	83.179,5	58.651,4	70,5
Componente Interno	30.780,3	33.601,8	109,2	42.490,3	44.032,1	103,6	44.881,3	42.562,0	94,8
Componente Externo	38.644,7	29.450,1	76,2	58.279,6	31.670,4	54,3	38.298,2	16.089,4	42,0
Total de Despesas	174.955,0	172.855,2	98,8	240.891,4	207.212,8	86,0	226.425,0	193.099,0	85,3

Note: The values for the 2015 execution are not final and are subject to revision.

Sources: State Budget Laws 2013, 2014, and 2015; State Budget Execution Reports 2013, 2014 and 2015.

7. **On the other hand, a full-coverage budget facilitates control of execution.** The exclusion from the budget of entities or items financed with public funds leads to additional efforts and inefficiencies in controlling budget execution.

8. **The coverage of the State budget is similar to that noted by a FAD technical assistance mission in May 2011.** Although the coverage rate is high, the National Social Security Institute (*Estado o Instituto Nacional de Segurança Social – INSS*) is outside the budget perimeter, as are certain autonomous institutes for which there is insufficient information (municipalities and enterprises are also outside the perimeter). The present TA mission was told that certain State budget entities that receive and execute their own revenues stopped budgeting for those revenues a few years ago (a practice that arose after the elimination of a rule authorizing the entity to include internally generated resources received during budgetary execution in its budget). Table 5 below shows the coverage level of the State budget, along with that of the CUT and the General State Account.⁴

⁴ The coverage level for the CUT will be considered below.

Table 5. Coverage levels of the budget, CUT, and General State Account

Tipo de Entidade	Recursos Tesouro	Recursos Próprios	CUT	Conta Geral do Estado
	Integra o orçamento	Integra o orçamento		
Órgãos Centrais	Sim	Sim	Sim	Sim
Institutos Autónomos	Não	Não	Não	Não
Fundações	Sim	Sim	Sim	Sim
Empresas Públicas	Não	Não	Não	Não
Empresas Controladas	Não	Não	Não	Não
Empresas Participadas	Não	Não	Não	Não
Distritos	Sim	Sim	Sim	Sim
Municípios	Não	Não	Não	Não
INSS	Não	Não	Não	Não
Fundos	Sim	Sim	Sim	Sim
Assembleia da Republica	Sim	Sim	Sim	Sim
Judiciário	Sim	Sim	Sim	Sim
Tribunal Administrativo	Sim	Sim	Sim	Sim
Banco de Moçambique	Não	Não	Não	Não

Note 1: Some central agencies, autonomous institutes, and foundations do not include internal revenues in their budgets.

Note 2: Update of the table contained in the 2011 AT report - Monitoring of Public Finance Management Reforms.

Recommendations:

- Formalize discussion with the Bank of Mozambique on the macroeconomic parameters defined by the MEF.
- Explicitly define the exchange rate along with other relevant macroeconomic parameters in the discourse and documents presenting the State budget.
- Continue, in 2016 and 2017, the training of AT and DEEF staff for short- and medium-term revenue projection (including training in econometrics and other new forecasting methods) stressing hands-on methodologies.
- Prepare revenue projections for the 2018 budget based on new econometric models and tools, with details by item and type of taxpayer.
- Distinguish revenue projections from revenue targets.
- Use the contingency reserve (“provisional allocation”) to cover increases in debt service caused by an unexpected devaluation of the metical against other currencies, among other unforeseen events.
- Make an inventory of all existing autonomous institutes and incorporate into the State budget those that do not yet form part of it.
- Include the INSS in the State budget.
- Return to the rule whereby an entity can record in its budget internal revenues exceeding those initially projected in the budget.

B. Controls on budgetary and financial execution

Diagnostic assessment

9. **Adequate control of execution requires a clear definition of all of its stages and a timely registration thereof.** It is essential that public administration specify and regulate the stages for executing the expenses provided for in the State budget, in a simple and objective way. This will provide the understanding and transparency needed for the good use of public funds from the State budget.

10. **The regulation of the processes and stages of State budget execution is evolving in Mozambique.** Budget execution starts with the approval of the budget by the Assembly of the Republic, and has its processes and stages defined in the SISTAFE Law, in annual decrees of responsibilities, in annual circulars issued by the MEF and in specific manuals, including the e-SISTAFE– MEO budget preparation manual and the financial management and accounting procedures manual⁵ – MAF.

11. **The key budget concepts are defined in Article 30 of Law 9 of February 12, 2002, as shown in Table 5.** The budget expenditure execution stage in e-SISTAFE begins with appropriation, registration of the expense to be assumed by the State, and ends with the respective payment.

Table 6 – Stages of the budget execution process

Appropriation	Administrative act of verification, registration, and freezing of the amount of the expense to be assumed by the State
Settlement	Calculation of the amount to be effectively paid and issuance of the respective payment order
Payment	Delivery of the amount in money to the beneficiary of the expenditure document

Source: Art. 30 of the SISTAFE Law of 2002.

12. **There is no legal instrument defining the concept of payment in arrears.** The IMF Government Finance Statistics Manual (GFSM) defines arrears as amounts that are both unpaid and past the due date for payment. Nonetheless, the legal instruments governing the budget of Mozambique are unclear on this concept.

13. **The circular on the administration and execution of the State budget for 2016 defines the deadline for the payment of expenses.** The deadline set, as defined in Article 12, 3, of MEF Circular No. 4 of 2015, is 10 working days after settlement has been approved.

14. **At the beginning of each year, the decree delegating responsibilities is published, which establishes rules for budget execution in the fiscal year.** These decrees set limits for earmarked reserves (*cativos*) and budget redistributions, and also deal with the delegation of responsibilities for budget execution (for 2016, see Chart 1)

Chart 1. Summary of Decree 1/2016 of February 1

Compulsory freezing of reserves (*cativos*):

- 15% of operating expenses that can be earmarked for wages and salaries and for transfers to families if necessary; and;
- 10% of operating expenses, which can be earmarked for other personnel expenses, expenses on goods and services, other current expenses, capital expenditure, and for the domestic component of investments, if necessary.

Exemptions from reserves (*cativos*):

⁵ Approved by Ministerial Diploma 181/2013 of the Ministry of Finance.

- Budget allocations financed from internally generated revenue and earmarked revenue, grants and external credits;
- Budget allocations from the local authority initiative investment fund, local authority compensation fund, and district development fund;
- Budget allocations for debt service, current transfers to public administrations, private administrations and entities abroad, subsidies, and previous fiscal year; and
- Government financial operations.

Budgetary redistributions:

- Permitted, for 2016, six redistributions over the year, with three for operating expenses and three for the domestic component of investments.

Main delegations of responsibilities to the Minister supervising the finance area:

- Release of obligatory *cativos*, through a justified request;
- Coverage of the budget deficit, payments of public debt service, financing of investment to occur in emergency situations, in cases of mobilization of additional and/or exceptional funds;
- Redistribution of budget allocations between activities of operating expenses and between projects of investment expenses included in the State budget, as well as between the priorities and pillars of the government's five-year program (PQG) 2015-2019, translated into the Economic and Social Plan (PES) 2016, at any level (central, provincial, and district).

Main delegations of responsibilities for titleholders of the other bodies:

- Redistribution of budget allocations of the respective bodies and institutions, within each of the aggregate expenditure groups, the given activity of operating expenses;
- Transfer of budget allocations between activities or between projects in duly justified cases, provided the activities or projects are under their management, and, if they involve bodies and institutions from more than one sector, all sectors involved are in agreement;
- Redistribution of allocations between the segments of the same project of the domestic component of investment expenditures of the respective level, except for the item "means of transportation".

15. **Following approval of the budget by the legislature, the management units are authorized to process and undertake expenditure transactions through the various mechanisms.** These mechanisms include the issuance of circulars on expenses, decrees, and execution plans. The authorization procedure can, however, include several steps before the budget allocations are effectively attributed to the budget executing agencies.

16. **In several countries (including Mozambique) the Ministry of Finance uses the *cativo* procedure to freeze part of the approved allocations.** These procedures might indicate prudent management of the budget; but their implementation often stems from the postponement, to the time of execution, of decisions that should have been taken in the budget preparation phase. Systematically freezing part of the budget that has been voted on could cause an even heavier concentration of payments in the last few months of the year, affect expenditure planning and, to some extent, demonstrate the lack of importance given to the role of the Assembly of the Republic.

17. **Adequate registration is needed of all stages of expenditure execution, particularly to avoid the assumption of unplanned and unforeseen commitments in the State budget.** The records should adhere to the specifics of each aggregate expenditure group in time, in relation to contracting, appropriation, settlement, and payment processes.

18. **In the expenditure phase, the hardest part is to record commitments.** The monitoring of appropriation is very important for the cash plan and for managing programs, as well as to prevent the risk of exceeding the budget and payment arrears. Nonetheless, this supervision requires an adequate and clear definition of what appropriation means. For budget administration and control of expenditure, appropriation in the budgetary sense should correspond to the initial phase of the expenditure cycle, when a request based on an allocation can be recognized. Appropriation has two purposes: (i) it defines the legal commitment assumed; and (ii) for budgetary purposes, it records the expense for subsequent settlement

(various headings: personnel, debt service, public utility invoices, and transfers). Consequently, appropriation, in the budgetary sense, should be defined as follows:

- For payroll expenses and social contributions, appropriation should correspond to the amount of the compensations, subsidies and contributions owed.
- In relation to goods and services, appropriation in general should correspond to the legal commitment that consists in making an order or awarding a contract. Nonetheless, in some special cases, appropriation in the budgetary sense could correspond to commitments. The appropriation phase and settlement phases can be simultaneous. Such special cases could relate to: (i) of necessity, expenses such as the consumption of public utility services and some other expenses arising from the execution of medium- or long-term leasing contracts; and (ii) for convenience, in respect of small-scale expenses and low-cost procurements.
- In relation to debt service, appropriation for the period should correspond to the debt service pertaining to that same period.
- In relation to transfers, the meaning of appropriation could depend on the nature of the transfer in question. For example, in relation to study scholarships, appropriation should correspond to the amount owed (as in the case of payroll expenses); but in the case of transfers that are unrelated to a contract or formal promise, appropriation could correspond to the stage in which the payment order is issued.
- In the case of investment expenses, the same definition used for goods and services should preferably be used. Appropriation should correspond to the contract. In the case of multiyear contracts, the definition of appropriation varies from one country to another, but whatever the budgetary language, the following elements should be systematically monitored and tracked: (i) the legal commitment (the contract), which could be of a multiyear nature; (ii) the annual tranche of the legal commitment; and (iii) expenses in the settlement phase (obligations resulting from the execution of the legal commitment).

In short, the mode of appropriation can vary according to the economic classification of the expense in question. Its definition should be precisely indicated in the financial regulations relating to each expenditure category.

19. **Rigorous legal, procedural, and documentary controls are needed for each stage of the expenditure process, distinguishing them by expenditure type and aggregate.** The controls in place in Mozambique seem adequate and well supported from the legal and documentary standpoints. Nonetheless, there is no clarity for the civil servants of the UGBs on the usefulness of each phase of the budgetary process.

20. **Table 7 sets out the procedures adopted for public procurements for goods and services and works.**

Table 7 – Mozambique: phases, agents and documentation of the budget execution process for goods and services and works procurement

Phases	Agents	Documentation issued
Public agent responsible for the UGB sends the TA the statement of budget availability and other documents (outside SISTAFE)	UGB, DNCP	Physical documentation sent by the UGB and DNCP, containing the balance of the allocation and the object of the budget contracting, among other things

TA analyses and authorizes contracting within 45 days (outside e-SISTAFE)	TA	Physical documentation signed and approval given
If it is not analyzed in 45 days, the contracting is tacitly accepted	TA	None
Responsible sector launches the tender and publishes in a widely circulating local newspaper (outside e-SISTAFE)	Sector responsible for execution	Publication in widely circulating local newspaper
Responsible sector selects the firm that wins the tender and signs a contract (e-SISTAFE)	Sector responsible for execution	Publication in widely circulating local newspaper, issuance of the State payment commitment note by the internal control agent
Firm or service provider delivers the good or service or the work (outside e-SISTAFE)	Supplier	Physical documentation (invoice)
Responsible sector appropriates (e-SISTAFE)	Appropriation agent	Document issued in e-SISTAFE following the recording of the appropriation in the Single Accounts Chart
Responsible sector settles (e-SISTAFE)	Settlement agent	Document issued in e-SISTAFE following settlement of the appropriation in the Single Accounts Chart
Responsible sector pays (e-SISTAFE)	Payment agent	Document issued in e-SISTAFE following issuance of the bank transfer from the CUT to the creditor, recorded in the Single Accounts Chart

21. **Despite the division of tasks between the appropriation, settlement and payment agents, who cannot accumulate such tasks within the same UGB, appropriation, settlement and payment is usually done sequentially on the same day.** In other words, what is actually happening is merely a formalization in e-SISTAFE of the public procurement procedures already in place. This seems to be a consequence of the monthly financial ceiling imposed by the DNT.

22. **The execution of payroll expenditure, except in the case of military personnel from the armed forces and military police, requires the NUIT to be included in e-CAF.** To include the name of the civil servant in the *e-Folha* electronic payroll system, a request must be made to the Administrative Tribunal (TA), presenting all documentation required under national legislation. Payroll expenses for the armed forces and military police are executed outside SISTAFE.

23. **The control of pensioner payments is fragile and is occurring indirectly in e-SISTAFE.** There are many pensioners, roughly 156,000, representing nearly 50% of the payroll, for whom payment by advances of funds is inefficient in avoiding fraudulent payment claims. Moreover, to improve the pension payment process, the collective payment function was customized in the Budget Execution Module (MEO). This function makes it possible to pay creditors on a mass basis, using a single administrative process in e-SISTAFE, which improves the control of budget execution. Electronic control of pensioner registration and payment is still under development, in the *e-Folha* modules.

24. **All contracting of civil personnel must be pre-approved by the TA.** The inclusion of new civil servants in *e-Folha* is preceded by review and authorization from the TA. Following inclusion in *e-Folha*, the payment is made automatically through each sector's UGB.

25. **The preparatory processes for goods and service procurements are not registered in e-SISTAFE.** Goods and services procurement is regulated by Decree 15/2010, of May 24; and prior control is needed above a given threshold in meticaís. A procurement request is filed by the UGBs at the

Administrative Tribunal, based on an e-SISTAFE printed document, indicating that budgetary allocation is available. The TA has 45 days from the request date to approve the procurement or reject it. If the TA does not issue a ruling within 45 days, the procurement is considered to be tacitly authorized.

26. **The process for contracting works and other investments follows the same procedures as for goods and service procurements.** As is the case with expenditure on goods and services, contracting above a certain value in meticais requires prior control by the TA to become effective. The procedures and deadlines are the same as indicated in the foregoing paragraph. For 2016, the Annual Budget Law requires procurements of goods and services and public works in excess of US\$100,000 to obtain prior TA approval.

27. **There is no legislation in Mozambique indicating how to record multiyear commitments, particularly for investment expenses.** For the efficient expenditure planning and budgetary control, this situation requires the close monitoring of multiyear legal commitments apart from annual budgetary appropriation. The multiyear commitment plan should be notified to the Ministry of Finance and recorded in e-SISTAFE.

28. **Good practices recommend the adoption of segregation of functions for budget execution, together with periodic reports on fiscal risks, including payments in arrears.** Each UGB maintains segregation of actions between civil servants for each phase of the budget execution process. Control, appropriation, settlement, and payment actions must be done by different personnel. Nonetheless, in UGBs with less human resource capacity, all stages might be concentrated in a single person; but for that, the NUIT of other personnel would have to be used. This reinforces the need for training and strengthening of functions in relation to the State budget.

29. **Good practices also recommend the monitoring and publishing of information on payment arrears.** In Mozambique, an expenses payable report is generated by e-SISTAFE. For each expenditure payable, the report provides information on the execution unit, beneficiary unit, source of funding, economic classifier of the expense, NUIT, amount registered (budgeted), financial resources requested, financial resources released, payments, cancellations, and amounts owed.

30. **Nonetheless, the expenditures payable report is of limited use for identifying payments in arrears.** Firstly, this document is prepared and published annually, which does not allow for timely monitoring of overdue payments. Secondly, expenses payable are not the same as payments in arrears, since the expenses payable could be partly or wholly paid by cash balances on December 31. Thirdly, these documents do not systematically record arrears generated outside e-SISTAFE, such as those occurring at the provincial and district levels, and others relating to VAT reimbursements and overtime payments (the latter are significant in the education sector).⁶ Fourthly, the report requires certain information on arrears that could be useful for classifying them and for developing better payment strategies: age, currency, specific contractual clauses and risks of nonpayment.⁷

Chart 2. Directive 2011/7/EU of the European Parliament and of the Council on combating late payment in commercial transactions

This Directive was issued in 2011 and seeks to protect firms (particularly small and medium-sized enterprises) facing a situation of restricted access to credit. It reinforces directives issued in earlier years on the same subject.

In the directive, commercial transaction means a transaction between undertakings or between undertakings and public authorities which lead to the delivery of goods or the provision of services for remuneration. Late payment means

⁶ Another IMF mission visited Mozambique concurrently with this FAD mission, to deal exclusively with the issue of VAT reimbursements.

⁷ Although the existence of this report to some extent contradicts what is stated in volume 2 of the 2015 Public Expenditure and Financial Accountability (PEFA) report for Mozambique, on the supervision of payment arrears (it claims that there is no system for supervising arrears), the fact is that the report's current characteristics significantly restrict its scope as a supervision tool.

payment not made within the contractual or statutory period of payment and where the creditor has satisfied all contractual and statutory conditions.

According to the Directive, in commercial transactions in which the debtor is the public authority and the deadline established for payment has expired, the creditor (having fulfilled all contractual and legal obligations) is entitled to interest for late payment. With regard to payment periods, the Directive establishes that these shall not exceed the following:

- 30 days following the date of receipt by the debtor of the invoice or an equivalent request for payment.
- Where the date of the receipt of the invoice or the equivalent request for payment is uncertain, 30 days after the date of receipt of the goods or services.
- Where the debtor receives the invoice or the equivalent request for payment earlier than the goods or the services, 30 days after the date of the receipt of the goods or services.
- Where the contract specifies a procedure for acceptance or verification of the goods or services (a procedure that shall not last more than 30 days from the date of receipt of the goods or services, unless expressly agreed otherwise in the contract, and provided this is not grossly unfair), and if the debtor receives the invoice or the equivalent request for payment no later than the date for such final acceptance or verification, 30 calendar days after that date.

Nonetheless, the Directive states that these deadlines can be extended up to a maximum of 60 days, if expressly agreed to in the contract and duly justified.

In addition, where interest for late payment becomes payable in commercial transactions, the creditor is entitled to obtain from the debtor, as a minimum, a fixed sum of EUR 40 to compensate for expenses incurred.

31. **The use of a full-coverage commitment plan, with at least an annual horizon, is a basic condition for preventing risks and preparing a cash plan that is more closely aligned to the government's needs.** Being able to identify State commitments, at any time and on a systemized basis is a valuable tool for decision-making and for fiscally more prudent medium-term planning.

32. **The DNT continues to restrict appropriations to the funding authorized for the month in question.** This makes it impossible to make the appropriations in e-SISTAFE for which there are already commitments assumed by the State with budgetary allocation available.

33. **The annual programming of expenses for appropriation and the respective payment schedules are not recorded in e-SISTAFE.** The monthly financial programming makes it impossible for expenditure appropriation to precisely record the commitments already assumed for the year. Managers do not have a clear understanding that appropriation is a precious tool of expenditure control at the commitments stage. It should be noted that e-SISTAFE allows for a budget and a cash plan to be prepared for an annual or longer horizon, which is currently not being done.

34. **It is essential to prepare a cash plan for at least 12 months ahead, and to use inputs from the main revenue collecting entities and executing entities.** More rigorous control of budget execution is only possible if there is periodic monitoring of the amounts to be collected for the subsequent months. This would be easier if each of the main agents with knowledge of and responsibility for collecting the main government revenues participate and collaborate.

35. **The commitment plans and cash plans are currently based on the revenue target in the approved budget, with the amount set for the following month in line with the seasonal pattern observed in previous years.** Over the course of budget execution there is no systematic review of revenues based on amounts already received and new economic realities. The budget amounts function as if they were a revenue target to be achieved by the end of the year. Nonetheless, this model does not correct distortions that could arise during budget execution, and it could lead to obligations being assumed by the State without there being sufficient funds for their settlement.

36. **Using the cash plan as a monthly financial programming tool is overloading the central treasury body, which is managing over 1,000 UGBs.** The decentralization of responsibilities through intermediate treasury units could be the solution, since each sector can distribute the limits received from the DNT among their UGBs, and the latter send their cash plans to the intermediate units.

37. **The financial programming (cash plan) is currently prepared only for the following month and is divided into weekly batches.** The monthly cash plan is distributed in e-SISTAFE by weeks, according to the types of expenditure to be prioritized and paid. For expenses with grants, investments and debt, the cash plan adheres to the forecast indicated by the sectors responsible for their execution. In the case of other expenses, the prioritization of payment for the month follows the schedule indicated in Table 8.

Table 8 – Prioritization of monthly payment schedule

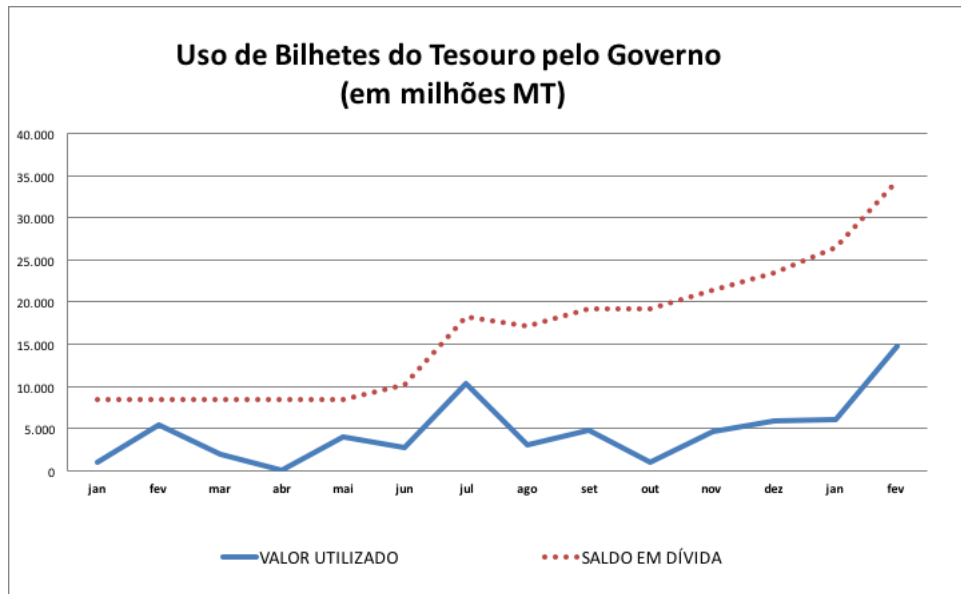
1st week	2nd week	3rd week	4th week
Expense allowances, goods and services, pensions, and social benefits	Wages	Wages	Minor expenses

38. **The fact that the monthly financial limits are not cumulative could lead to a monthly race against time to use unspent balances.** New limits for the UGBs are set each month, without taking account of unused balances from the previous month. This could impair budgetary planning and force a UGB to use the monthly limits allocated to it, in any way and at any cost, because the funds might not be available for the following month.

39. **The main purpose of appropriation control is to require spending ministries to concentrate on the initial phase when the obligations are incurred, rather than on the subsequent payment of monetary amounts.** The key elements of an appropriations control system are as follows:

- Each sector ministry sends the Ministry of Finance a quarterly expense plan, accompanied by the projected monthly cash needs. Based on the annual and quarterly cash plans, the Ministry of Finance sets quarterly expenditure limits, along with the projected amounts to be released each month to the sector ministries, before the start of each quarter.
- The sector ministries must limit appropriations to the quarterly expenditure ceiling and keep programmed payments within the monthly amounts made available.
- The sector ministries must prepare monthly reports on outstanding appropriations and invoices payable, and submit them to the Ministry of Finance.
- Each of the sector ministries must have a staff member responsible for control of appropriation (normally the financial auditor or accountant) who is responsible for managing the system.
- Detailed procedures must be defined for the approval of appropriation, payment, and accounting control. The onus is on the staff member responsible for appropriation control, who must ensure that appropriations made are consistent with the quarterly ceilings—without incurring payment arrears.

40. **The slow growth cycle prevailing in 2015 and 2016 has led to an increase in treasury bill issuance to cover budget expenses.** The figure below suggests that the budget is under pressure. The overall balance of 90-day T-bills issued for fiscal policy has been growing systematically since June 2015, with nearly MT 15 billion in T-bills being issued in February 2016 alone.

Figure 1 – Government use of treasury bills, 2015 – 2016 (February)

41. **Apart from good projections and the support of a full-coverage CUT, good financial programming requires a collection network operating with a single collection document.** The DUC must classify the revenue the at the time of payment.

Recommendations:

- Adopt a quarterly cash budget for the entire year, differentiating by aggregate expenditure group (second level of the economic expense classifier) based on up-to-date and realistic projections (Articles 80 and 81 of the SISTAFE Regulatory Decree) (see Table 9).
- Improve monthly cash planning, establishing it for rolling 12-month periods. Chart 3 following the recommendations, sets out a proposal for preparing the cash plan.
- Unused financial balances from a given month should be available in the subsequent months' cash plans.
- Monthly programming for revenue management should apply to the tax authority and the entities with the largest internally generated income, and the expenditure programming should involve all UGBs (or the largest ones)
- Create a financial programming committee consisting of the DNT, DNPO, DNCP, and Debt Division, with the Bank of Mozambique as an invited guest. The committee should meet weekly, and present for discussion the plan for the ensuing weeks up to the end of the month and the following month.

Table 9 – Appropriations programming by expenditure type

Expense	How and when to appropriate	When to settle
Payroll, pensions, debt, and previous fiscal years	Comprehensive appropriation for amounts forecast for the year, according to commitments already assumed and with budgetary allocation available. Reinforcements or cancellation of appropriation must be made as new commitments and facts are identified.	Settle month by month, as the expenses for these items become ready for payment.
Goods and ongoing services	Comprehensive appropriation for amounts forecast for the year, according to commitments already assumed and the available budgetary allocation.	Settle as the invoices for services provided are presented.

Goods and services, except for ongoing services, and investment, including works	Appropriation of expenses envisaged for the year, at the time of contract signing. The quarterly schedule allows for greater flexibility and must be prepared to guarantee liquidity for paying appropriated expenses.	Settle when there is proof of delivery of the work or good or service, through the presentation of invoices or other evidentiary documents.
Current and capital transfers and subsidies	Appropriation according to the schedules defined for realizing these expenses and the available budgetary allocation.	Settle when the execution conditions have been met.

- Include a regulation of higher legal status for the obligation to deliver the commitment note from e-SISTAFE to the supplier, as a document required for contract signing.
- Decentralize the financial programming through intermediate treasury units to facilitate the distribution of financial quotas among the sectoral UGBs.⁸
- Review the revenue projection for the year every month, based on amounts collected and more reliable prediction models.
- Publish the Payment Arrears Report every month and use it as a permanent monitoring mechanism.
- Task the General Tax Inspectorate with performing audit of payment arrears for the entire public sector, and record a report on arrears generated in SISTAFE. Among other things, this means systematically generating a report on overtime payment arrears, for VAT reimbursements, and for those arising in the provinces and districts and, in general, for all other arrears generated in and outside e-SISTAFE.
- Define an arrears management plan that includes a scheduling of payment arrears with explicit payment prioritization criteria.

Chart 3 - Proposed solution for preparing financial programming for rolling 12-month periods

Financial programming consists of two instruments: the cash budget and the cash plan. The financial programming should, in these instruments, reflect rolling 12 month periods, containing a plan of procurements, contracts and projections of ongoing expenses. These expenses have a commitment date and a payment date, which are different in time. Considering this date difference and the limits imposed in the State budget, the revenue floor and expenditure ceiling, the financial programming guarantees that revenue projections and expenditure estimates allow for financially sustainable execution of the State budget, over time and within these limits.

The outturn of the cash budget defines the appropriation limits per UGB, distributed on a quarterly basis, by funding source and aggregate expenditure group, to ensure that appropriation capacity is consistent with the revenue projection, which may be different from the allocation available during the fiscal year.

The outturn of the cash plan, distributed monthly, by week, by FR, and by aggregate expenditure group, to ensure timely payment of settled expenses.

Conditions for good financial programming:

- All UGBs must be in the CUT and they must not have bank accounts outside the CUT;
- Review the conceptual model of the collection network to ensure that the TA systems and systems that manage internally generated and earmarked revenues adopt a single collection document (DUC) to replace the form currently used (*Modelo 51*);
- The DUC should be designed so as to use the bank collection system, as exists in the reference entity, to ensure revenue classification from the moment of its payment.

⁸ The same procedure can be used for intermediate budget units. Budgetary and financial management of the State budget can be decentralized so as to better manage the existing UGBs by creating intermediate budget and treasury units. The SISTAFE regulation provides that the central budget and treasury units will delegate responsibilities to the intermediate units so as to guarantee consistent decentralization.

- The DUC must be issued by the revenue management system (e-taxation, temporary revenue collection system – SICR, single online window – JUE);
- The CUT must be the only depository of revenue; there must be no transition accounts in commercial banks or in the Bank of Mozambique;
- Adjustments of gross revenue versus net revenue, reflecting calculations of tax reimbursements owing to improper payment, should be provided for and not collected from the Treasury. They remain in the CUT for financial payment after the AT has found them to have the appropriate legal basis;
- Until there is account-keeping of all revenue acts and facts in accordance with the ISPAS (accruals-based accounting) it is advisable to manage revenue programming through a financial programming committee, where the AT, in the tax and customs components, participates with the Treasury and the key entities that manage earmarked and internally generated revenues, in defining programming for rolling 12-month periods;
- This Financial Programming Committee should meet every week to evaluate the programming of revenue collection, and every quarter to review the revenue projection;
- This revenue programming, together with the programming of expenses to be appropriated and of expenditures payable, can be recorded in e-SISTAFE as financial programming transactions;
- Based on this cash flow, Treasury financial programming can be structured over a 12-month rolling horizon, and issuance needs determined.
- Financial programming will give rise to this new model of government finance management, defined by budgetary execution control, the distribution of appropriation limits (*Limites para Cabimentar* – LMC) reflecting the outcome of the cash budget, and financial quotas consistent with the outturn of the cash plan;
- The quarterly limits (within the fiscal year) to be appropriated are controlled by specific accounts in the unified chart of accounts, with funding source and aggregate expenditure group as objects;
- An UGB can only make an appropriation if it has a balance in its accounts in terms of the available allocation and appropriation limit (LMC); and
- Any appropriation made within the LMC can be settled in due time and will have a financial allocation available.

C. CUT coverage

Diagnostic assessment

42. **Budgetary expenditure is still being made through bank accounts outside the CUT.** It was impossible to obtain up-to-date information from the DNT on the number of bank accounts that are open outside the CUT (Table 10). Nonetheless, the opening of new accounts outside the CUT remains permitted, provided previously authorized by the sector supervisor and by the Ministry of Economy and Finance. On a priority basis, revenue and expenditure accounts must be opened at the Bank of Mozambique, except for accounts to pay wages and those used to receive student fees. Table 11 shows the volume of financial resources outside and inside the CUT at the fiscal year-end.

Table 10 – List of jointly owned accounts by type, April 2016

Type	Description	Quantity
1	General revenue	
2	Operating expense	
3	Investment expense	
4	Wage expense	
5	Public enterprises and others	
7	Expenses on programs and projects	
8	Central Treasury	
9	Provincial Treasury	
10	Debt service expenses	
12	Provincial revenue	
15	Wage deductions	
16	Wage deductions	
Total		

Source: DNT.

**Table 11 – Year-end cash balance
(MT million)**

Type of account	2013	2014	2015
CUT	13,618	10,635	ND
Receiving accounts	4,063	6,867	ND
Other Treasury accounts	7,289	7,699	ND
Other State accounts	45,075	46,321	ND
Total	70,045	71,522	ND

Source: General State Account 2014, map I.

43. **To handle external financing, the Single Treasury Account has a facility allowing for deposits to be made in foreign currency (CUT-ME).** Nonetheless, the amounts executed in 2015 for the external component, in relation to budgetary forecasts, show that its use has been limited. This would suggest that donors continue to execute their expenses *off CUT* and *off Budget*.

**Table 12 - Percentage of external funding channeled through the CUT, 2013-2015
(MT million)**

Item	2013	%	2014	%	2015	%
Budget support						
Project financing through CUT						
Project financing off CUT						
Grant-back agreements						

Total external funding

Source: MEF.

44. **A large portion of the domestic component in the CUT is executed through advances of funds, indirectly in e-SISTAFE.** Despite the progress made, 27% of the domestic component in 2015 was executed through advances of funds, outside e-SISTAFE. This includes payroll and pensioner expenses, in proportions of 25% and 99%, respectively, as shown in Table 13.

**Table 13 - Amounts appropriated in 2015 from the domestic component
(MT million)**

	Indirectly	%	Directly	%	Total
Economic nature	40,433	27	109,512	73	149,946
Personnel	17,178	25	52,458	75	69,636
Goods and services	2,849	11	22,661	89	25,509
Debt service	3,445	45	4,132	55	7,577
Current transfers, except pensions	3,673	39	5,808	61	9,481
Civil and military pensions	10,878	99	119	1	10,997
Subsidies	0	0	2,213	100	2,213
Previous fiscal years	114	70	49	30	162
Other current expenses	156	21	590	79	746
Capital goods	1,818	9	17,761	91	19,579
Capital transfers	322	8	3,723	92	4,045

Source: e-SISTAFE report.

45. **Many countries use the advance of funds system for minor expenses.** In 2015 the vast majority of wages and pensions were executed indirectly. For 2016 the *e-Folha* system eliminates a large proportion of these amounts executed through advances of funds, although this system has not yet been implemented for pensions.

46. **Although the advance of funds system makes it easy to manage outgoings such as travel expenses and those made by geographically remote local expenditure units, in most other situations advance of fund systems do not compensate for the inconveniences and risks.** Advance of funds systems tend to generate idle balances in government bank accounts, which increase the government's need to borrow to finance payments by certain agencies, while other agencies have surplus funds standing idle. Similarly, when the ministries have many bank accounts, the reports and controls are fragile, and the management risks are high. The CUT aims to overcome those weaknesses.

Recommendations:

- Develop and implement a plan to steadily increase the coverage of direct budgetary execution, until full budgetary execution through this channel is attained.
- Publish quarterly data on the physical bank accounts held by the public sector and their balances in and outside the CUT, and within the Bank of Mozambique.
- Prepare and implement a gradual account closure plan.

Table 14 - Budgetary coverage and CUT coverage

Indicator		2007	2008	2009	2010	2011	2012	2013	2014	2015
Budget preparation and execution	% of revenue not included in the budget	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	% of expenditure not included in the budget	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.	n.a.
	No. of units using e-SISTAFE for preparation and execution	12	301	320	438	504	620	677	1,124 out of a total of 1,538	1,305 out of a total of 1,525
Financial execution	% of expenditure executed directly through the CUT	11.49	23.61	31.40	37.55	42.22	52.58	58.61	67.83	74.73
	No. of bank accounts held by public entities outside the CUT	6,428	5,438	5,433	4,390	4,028	n.a.	n.a.	n.a.	n.a.
	No. of donor funds making payments abroad through the CUT-ME	1	1	n.a.	6	13	n.a.	n.a.	12	10
	No. of donor funds using the CUT-ME	n.a.	n.a.	1	13	13	n.a.	n.a.	13	11
	CUT year-end balance (MT thousand)	2,009,463	2,808,995	4,195,992	5,632,264	10,932,524	7,045,422	13,020,409	n.a.	n.a.
	Total value of 90-day T-bills issued (MT million)	n.a.	n.a.	n.a.	20,000	21,500	21,000	28,760	n.a.	n.a.
	No. that complete e-SISTAFE rollout	245	301	320	438	504	620	677	1,124	1,305
	No. of users served in e-SISTAFE through in-person attendance (per day)	13	26	39	20	NA	21	25	16	14
	No. of line ministries using the sector plan	0	1	1	0	0	None	None	None	None
	No. of active users in e-SISTAFE	4,463	4,074	4,173	6,478	10,004	14,836	18,606	38,556	46,091

	% of wages executed directly	2.73	2.75	3.47	8.60	15.77	20.6	38.47	64.77	81.13
	% of pensions executed directly	0	0.88	0.30	0.30	0.29	Central level: Civil: 2.22. Military: 0.09	Central level: Civil: 2.09 Military: 0.13	Central level: Civil: 2.27 Military: 0.18	Central level: Civil: 3.19 Military: 0.17

Source: CEDSIF.

D. Internal and external controls

Diagnostic assessment

47. **The IGF and Administrative Tribunal (*Tribunal Administrativa* – TA) have access to e-SISTAFE to prepare the inspections, audits, and the General State Account.** This benefits the preparation of internal and external control actions to streamline control instruments.

48. **The IGF is in the process of defining the conceptual model of the SISTAFE internal control subsystem (*Subsistema de Controlo Interno* – SCI).** In this model, the transaction profiles have already been implemented in e-SISTAFE for the internal control agents tasked with ensuring documentary and accounting conformity in each phase of expenditure execution, so as to guarantee, through the separation of functions, the verification of the event and the fact recorded in e-SISTAFE, in the light of the documentation existing in the administrative process.

49. **Development of the SISTAFE SCI conceptual model will include conformity actions on wages, pensions, and works and services contracts.** These internal controls will be introduced in e-SISTAFE, in the e-CAF and *e-Folha* modules, which will perform monthly random verifications of expenditures executed in these expenditure categories.

50. **The opinion of the Administrative Tribunal on the General State Account includes analysis on the UGB management accounts, where divergences have been found in the execution of income and expenditure outside the State budget and CUT.** This information is essential to enable the IGF in conjunction with the NDCP and DNT, to act with the UGB in recording these revenues and expenditures in the State Budget Proposal (*Proposta do Orçamento do Estado* – POE), avoiding new divergences. This currently is not happening, so the TA's opinion will only be released once the POE has been finalized.

51. **There is a need to improve internal control instruments for identifying bank accounts outside the CUT and the financial movements made between these accounts and the CUT.** The Bank of Mozambique does not have tools to supervise the opening of commercial bank accounts by government agencies. As the NUITs of these organisations and those of their authorizers and agents in e-SISTAFE are known in the system, internal control on this issue can be based on the information recorded in e-SISTAFE.

Recommendations

- Release the opinion on the General State Account in time for divergences in execution in the POE to be addressed.
- Develop new internal control transactions in e-SISTAFE for the agent responsible for the internal control of conformities in the e-CAF, *e-Folha*, and online property management (*e-Património*) systems and for the management of bank accounts outside the CUT.

E. Information and communication technology

Diagnostic assessment

52. **An analysis of e-SISTAFE shows that a robust information technology system is evolving, based on the accounting records of all government finance management events and facts.** Improvements to the recording of multiyear commitments and the evolution of financial programming are addressed in this section, within the scope of ICTs.

53. **The SISTAFE conceptual model is the starting point for the integrated conceptualization of all SISTAFE functional components.** The conceptual model provides the conditions needed for functional specification of the information systems.

54. **The reform of government finance management (*gestão das finanças públicas* – GFP) in Mozambique continues to proceed consistently and on a sustained basis, based on the broad**

SISTAFE conceptual model. The SISTAFE conceptual model has provided a vehicle for discussing best GFP practices, and for integrating the various functional components of GFP (Treasury, budget, accounting, property, internal and external controls, and human resources). The CEDSIF is entrusted with the task of coordinating the evolution of the conceptual model among the areas that supervise GFP functions in the MEF. This conceptual framework serves to determine the requirements for legal review, along with those requirements for the specification of IT systems and human resource training.

55. **Organizational improvement in CEDSIF to support the reform of SISTAFE is a fact, while the reform management model needs greater empowerment from MEF.** During 2012, the Decree Law that created the CEDSIF was amended; the CEDSIF Organic Charter was approved, and the internal regulation of CEDSIF was prepared and submitted for consideration, with a view to its approval by the minister responsible for the finance area. With this institutional framework, the UTRAFE was abolished and the CEDSIF takes on the role of the unit for the reform of SISTAFE. Nonetheless, the SISTAFE reform management model requires greater participation from the highest levels of the MEF in taking the decisions needed for the reform.

56. **The functional and territorial coverage of e-SISTAFE is evolving in response to its conceptual model.** The e-SISTAFE consists of several models and supports budget, financial and property execution, in 1,388 UGBs (637 at the district level, 584 in the 11 provinces, and 167 at the central level). This rollout process contributed to positive implementation of State budget execution, with an evolution of execution indirectly towards the direct channel. In March 2016, a 65.3% execution level was achieved directly with a target of 74% for the end of 2016 (the rates were 42% in 2011 and 52.6% in 2012). Table 6, below, shows the different stages of development and implementation of the functional modules that comprise e-SISTAFE, including its territorial expansion.

Table 15. Current status of the development and implementation of the e-SISTAFE modules

SISTAFE functional components	Functional coverage		Territorial coverage		
	Current situation	Predicted evolution	Central	Provincial	District
Budget preparation module (MEO)	Stage of the systems in the life-cycle of information system development: <ul style="list-style-type: none"> ✓ Conceptualization ✓ Modeling ✓ Unified modeling language (UML) specification ✓ Programming ✓ Testing 	Conceptual model of the national planning and budgeting system prepared and in the internal discussion phase	All UGBs use the MEO to prepare the budget	All UGBs use the MEO to prepare the budget	All UGBs use the MEO to prepare the budget. In 2014 the district services were turned into UGB
Budget execution module	Stage of the systems in the life-cycle of information system development: <ul style="list-style-type: none"> ✓ Conceptualization ✓ Modeling ✓ UML specification ✓ Programming ✓ Testing 	Improvements foreseen to meet customer needs and MPE and e-taxation underdevelopment	165 UGBs decentralized	560 UGBs decentralized	580 UGBs decentralized
			<ul style="list-style-type: none"> • 1,305 UGBs decentralized out of a total of 1,525 UGBs. • Direct expense execution 74.73% of total expenditure realized 		
Information management module	Stage of the systems in the life-cycle of information system development: <ul style="list-style-type: none"> ✓ Conceptualization ○ Modeling ○ UML specification ○ Programming ○ Testing 	<ul style="list-style-type: none"> • Conceptual model of the internal control subsystem prepared and approved; • Actions begun for the development of SCI functions. 			
State property management module	Stage of the systems in the life-cycle of information system development:	<ul style="list-style-type: none"> • Conceptual model of the State property 	CBS and CEF are being used by the National		

SISTAFE functional components	Functional coverage		Territorial coverage		
	Current situation	Predicted evolution	Central	Provincial	District
	<ul style="list-style-type: none"> ✓ Conceptualization ○ Modeling ○ UML specification ○ Programming ○ Testing 	<ul style="list-style-type: none"> subsystem prepared and approved; • Development of the goods and services cadaster (CBS); • Development of the Unified Register of Public Works Contractors and Goods Suppliers and Service Providers (CEF) • Business model for direct incorporation of property prepared; 	State Property Department (DNPE) in an initial phase		
Wages and pensions management module	<p>Stage of the systems in the wage system development life cycle (e-CAF e e-Folha):</p> <ul style="list-style-type: none"> ✓ Conceptualization ✓ Modeling ✓ UML specification ✓ Programming ✓ Testing <p>Sage of the systems in the development cycle of the pension system and the Integrated Human Resource Management System (SIGRH):</p> <ul style="list-style-type: none"> ✓ Conceptualization ○ Modeling 	<ul style="list-style-type: none"> • Development and decentralization of e-CAF and e-Folha • Proof of life of government employees and agents (FAE) • Conceptual model of the National Human Resource Management System (SNGRH) prepared and being approved • Start of development of the SNGRH 	<ul style="list-style-type: none"> • Total of 315,699 FAE registered in e-CAF; • payment of wages and salaries directly to 286,781 FAE (90.84%), with 279,334 processed through e-Folha (88.48%) • 296,783 proofs of life, corresponding to 98.5% dos 301,153 existing up to 30 June 2015 in e-CAF 		

SISTAFE functional components	Functional coverage		Territorial coverage		
	Current situation	Predicted evolution	Central	Provincial	District
	<ul style="list-style-type: none"> ○ UML specification ○ Programming ○ Testing 	<ul style="list-style-type: none"> ● Proof of life of pensioners in preparation 			
Public debt management module	Stage of the systems in the life-cycle of development of the information system: <ul style="list-style-type: none"> ○ Conceptualization ○ Modeling ○ UML specification ○ Programming ○ Testing 	<ul style="list-style-type: none"> ● No development 			
Collection network management module	Stage of the systems in the e- taxation system development life cycle: <ul style="list-style-type: none"> ○ Conceptualization ○ Modeling ○ UML specification ○ Programming ○ Testing 	<ul style="list-style-type: none"> ● Conceptual model of e- taxation prepared and approved ● Taxpayer register module (NUIT) developed ● The following functionalities developed: <ul style="list-style-type: none"> ▪ Settlement management (MA, MB, MC and M30) ▪ Current account management ▪ GARE management ▪ Management of interest and finds 	NUIT functioning in 101 localities VAT, ISPC and common processes functioning in 26 localities		

SISTAFE functional components	Functional coverage		Territorial coverage		
	Current situation	Predicted evolution	Central	Provincial	District
		<ul style="list-style-type: none"> ▪ Payment management ▪ Management of VAT reimbursements ▪ Litigation management ▪ Income accounting management ▪ Access management ▪ Management of tax enforcement actions ▪ Critical reports 			

Table key:

- ✓ Life cycle phase realized
- Life cycle phase not realized

57. **Nearly all wages and pensions are now paid through e-SISTAFE.** Although the *e-Folha* system has expanded to encompass nearly all government institutions, there are still some whose staff are not paid by the system; and the coverage of banking services makes the direct staff payment process fragile. The Armed Forces and police are not in e-CAF, so they do not have their wages paid through the online payroll system. In the case of teachers, all of them are in e-Folha, but as there are no banks close to their place of work and residence, they have to incur the expense of travelling to the nearest bank branch or sending a colleague to the bank to collect the wages for a group of staff.

58. **The security of pensions payments will increase considerably with the full use of a system similar to e-CAF and e-Folha.** The recently implemented National Pensions Department has a goal for 2016 of initiating the proof of life process for pensioners and instituting computerized pension payments.

59. **Within the SISTAFE conceptual model, the collection network component remains to be developed, as a fundamental element for collecting revenue into the CUT.** The SISTAFE Law and regulation defines three phases for the execution of revenue (entry, settlement and collection) and the collection network concept, respectively. The collection network is not yet fully operational in the SISTAFE conceptual model; there are still points to be harmonized with the legal framework governing the tax area (Law 15 of 2002 and Law 2 of 2006, together with their regulations), which only defined two phases (settlement and collection), for the execution of income and they establish procedures that use Form 51 as the revenue collection instrument.

60. **The information systems that support the tax area, namely SICR and JUE, implement procedures with Form 51 so as to abide by current tax laws.** These procedures prevent the establishment of the collection network specified in the SISTAFE regulation, where the financial flows pertaining to the collection of tax receipts, earmarked revenue, and internal revenue are undertaken directly in the CUT, with the due classification and accounting in e-SISTAFE.

61. **The implementation of the single collection document, in coordination with the Tax Authority (AT) and the National Treasury Department (DNT) in the context of the collection network envisaged since 2013 has not yet been implemented.** The e-Taxation conceptual model developed in 2013 envisaged a single State revenue collection guide (*Guia de Arrecadação de Receitas do Estado* – GARE), to be generated exclusively by the e-SISTAFE collection module. This guide must respect the principles of integrity, validity, and security of information, and will serve for the collection of all State revenues. Thus far, only a pilot implementation of GARE is envisaged, for its use for payment and the banking system.

62. **The e-SISTAFE information technology platform is based on *Services Oriented Architecture (SOA)*, which includes its own modular structure and affords interoperability with other systems, thereby guaranteeing technological capacity to accommodate future developments.** The development of in-house systems and the contracting of proprietary systems are easily incorporated into e-SISTAFE.

63. **The MEX module, which supports the accounting of all events and facts of State administrative, financial and property management, is suitable for supporting the necessary changes to the expansion of the cash accounting module adjusted for accruals.** The level of structuring and benchmarking of the MEX allows for specific transactions to be created and linked to accounting operations and their respective objects in benchmarked fashion; if new objects need to be created, the modularized functional specification facilitates implementation. The new transactions created are recorded in the unified chart of accounts, which can be parameterized for each fiscal year.

64. **The current communications network architecture is private, with high operating costs. Nonetheless, its migration to Internet is under consideration at the CEDSIF.** With the aim of reducing operating costs, CEDSIF is analyzing the possibility of migrating the private SISTAFE communication network to the Internet, with the due reliability and security requirements.

Recommendations

- Prioritize development and implementation of the e-taxation modules in respect of the collection network and e-pensions and e-property.
- Strengthen the SISTAFE reform management model with greater empowerment for MEF.

F. Legal framework for budgetary execution

Diagnostic assessment

65. **The legal framework governing the budget and government finance management establishes the obligation to prepare an annual commitment program, divided month by month, aligned with the cash plan (or treasury plan), and the distribution of both into quotas.** Nonetheless, these tools are not adequately used to control budgetary execution. In practice, the execution control horizon is one month. All phases of budgetary execution are recorded at the same time and within a one-month horizon, as noted above.

66. **Although the legal framework covers the time of registration of the different phases of budget execution (appropriation, verification, payment), it does so in a relatively general way.** It does not specify the amount to be recorded in each time period. As shown in the previous sections of this report, the time depends on the economic nature of the expense.

67. **There is no definition of payments in arrears in the SISTAFE Law, or in its regulation.** An annual circular has been used, which defines the procedures for the administration and execution of the budget, to adopt a maximum payment period of 10 working days after settlement of the expense, which is an excessively short period and much less than the deadlines set in regulation such as the 2011 EU Directive on late payment in commercial transactions, described above. The adoption of the definition of arrears in a higher ranking legal instrument, such as a Council of Ministers decree, which depends on the economic category of expenses, and for contracts and orders in which there are no deadlines agreed, is crucial for controlling budget execution.

68. **The juridical-legal framework does not recognize the payment of interest to suppliers or other costs resulting from late payment.** The recognition of interest and other amounts is important for eliciting efficient management of payments and to compensate suppliers for the costs involved in receiving payments in arrears. The EU Directive and the legislation of other countries recognize payment of interest for late payment, but not the payment of fixed sums in respect of other costs incurred.

69. **There are no limits set for the time elapsing between the delivery of the invoice and verification that the goods and services were provided as contracted.** The legislation should also establish a time limit between these events, because countries tend to delay the verification process, without this affecting the identification of payments in arrears.

70. **The legislation also does not make it mandatory to report payment arrears frequently.** To exercise adequate control of late payments, execution needs to be monitored periodically (monthly), and a report on payment arrears needs to be produced.

Recommendations

Include the following obligations in the legal framework of government finance management, in at least a higher ranking instrument, such as a Council of Ministers decree:

- Define the moment and amounts for recording the various phases of budget execution, according to the economic nature of the different expenses.
- Prepare an annual commitment program, aligned with the annual cash plan and procurement plan. Both should be prepared on the basis of information provided by government entities.
- Divide the commitment program into quarters and implement it in conjunction with monthly payment quotas for each quarter consistently with the program.

- Include a definition of late payments, the obligation to pay interest on liabilities whose payment was delayed, and the payment of a fixed sum but for other costs incurred. The 2011 EU Directive could serve as a reference on this topic.
- Also include time limits between the phase of submitting the invoice and the verification phase.
- Periodically (monthly) monitor execution and produce a monthly report on payment arrears.
- Include in the quarterly budget execution reports, the obligation to provide quantitative information on commitments, settlements, and payments, by economic expense category.

G. Human resource training

Diagnostic assessment

71. **There is a shortage of skilled human resources in GFP functions within SISTAFE.** Specific knowledge of public finance is necessary for the evolution of the GFP; good information systems with capacity to process information is not sufficient, without having civil servants with the technical capacity to analyze, take decisions, and seek out technical-functional solutions.

72. **There is a lack of ICT-qualified human resources in CEDSIF.** During 2012, the Decree Law that created CEDSIF was amended; the CEDSIF Organic Charter was approved; and the draft CEDSIF internal regulation was prepared and submitted for review, with a view to its approval by the Minister of Finance. The contracting of staff with ICT skills involves giving the CEDSIF its own recruiting status, exempting it from the General Law on Civil Servants, which is currently going through the approval process.

73. **Skills retention is a chronic problem in SISTAFE.** The retirement of skilled staff and loss of skills as young people leave for better paid jobs in the market puts SISTAFE sustainability at stake.

Recommendations:

- Establish a skills retention strategy to underpin SISTAFE continuity and progress.
- Prioritize, apart from the capacity to operate the e-SISTAFE information technology systems, GFP functional skills, namely public accounting on an accruals basis, public finance, econometrics, cash flow management and logistics (procurements, contracts, stock control).
- Prioritize, apart from the capacity to operate the e-SISTAFE information technology systems, capacities for the analysis of functional and technological requirements and development of artefacts in Unified Modelling Language (UML).