



REPUBLIC OF MOZAMBIQUE

TECHNICAL ASSISTANCE REPORT — REGAINING CONTROL OVER BUDGET EXECUTION

January 2023

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

Republic of Mozambique

Regaining Control Over Budget Execution

Benoit Taiclet, Laura Doherty, Gregory Horman, Armando Manuel, and Esther Palacio



Technical Assistance Report

April 2018

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Abbreviations and Acronyms

CEDSIF	Finance Information System Development Center
CFMP	<i>Cenário Fiscal de Médio Prazo</i> (Medium-Term Fiscal Framework (MTFF))
CGE	<i>Conta Geral do Estado</i> (year-end budget execution report)
CUT	<i>Conta Unica do Tesouro</i> (Treasury Single Account)
DEEF	Directorate for Economic and Financial Studies
DNMA	National Directorate for Monitoring and Evaluation
DNPO	National Directorate for Planning and Budget
DNT	National Treasury Directorate
e-SISTAFE	Integrated Financial Management Information System (software)
FAD	Fiscal Affairs Department of the IMF
FRS	Fiscal Risk Statement
FTAP	Fiscal Transparency Action Plan
GFSM	Government Finance Statistics Manual
GGR	<i>Gabinete de Gestão de Risco</i> (Cabinet for Fiscal Risks Management)
IGF	General Inspectorate of Finance
IMF	International Monetary Fund
IT	Information Technology
MEF	Ministry of Economy and Finance
PFM	Public Financial Management
REO	<i>Relatórios de Execução Orçamental</i> (quarterly budget execution report)
SOE	State-Owned Enterprise
SISTAFE	Public Sector Financial Management System (framework)
TA	<i>Tribunal Administrativo</i> (Administrative Court)
UGB	Beneficiary Management Units
UGE	Executor Management Units
VAT	Value Added Tax

Preface

In response to a request from the Minister of Economy and Finance, Mr. Adriano Maleiane, a technical assistance (TA) mission from the Fiscal Affairs Department (FAD) visited Maputo, Mozambique during the period November 15-29, 2017, to improve budget execution and foster expenditure control. The main purpose of this mission was to take stock of workflows and processes in budget execution to assist the authorities in improving their control over the execution of the budget.

The mission was led by Mr. Benoit Taiclet and comprised Ms. Laura Doherty (FAD staff), Messrs. Gregory Horman and Armando Manuel (FAD experts), and Ms. Esther Palacio (IMF TA coordinator and PFM expert in Mozambique). The mission benefitted from the support of the IMF office in Mozambique.

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

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

Executive Summary

This mission contributed to the government public financial management strategy (PEFP 2016-2019) at a pivotal time for Mozambique's government. Unlike previous DANIDA missions tasked with an overall review of the PFM system, this mission focused on expenditure control. It came at a critical moment when depleted revenues have shaken government balances, resulting in domestic arrears, which burden the public debt, and threaten fiscal sustainability.

The accumulated stock of arrears may adversely affect the country's economy and its public finance. Potential impacts include: shaking economic operators' confidence in the government; potentially disrupting the public service delivery; and crowding out cash supply to the economy. Lastly, it may well induce second-round fiscal costs since suppliers to the government are now inclined to request payments in advance or withhold payment of taxes until they receive payments due to them from the government.

In this context, urgently assessing, then gradually clearing, the stock of arrears is a first and crucial step to be taken. Based on other countries' experience, the government should rapidly take stock of and validate legitimate suppliers' claims. This will send a positive signal to creditors and raise officials' awareness on the need to comply with budget ceilings and expenditure processes. Clearing these arrears will come afterward, with creditors' agreements on clearance modalities (including discounts and possible securitization), and may take several years.

Just as urgent is the need to identify and eliminate the underlying causes of arrears accumulation. In Mozambique, the major weaknesses to be dealt with are the following: the poor credibility of budget allocations; short-sighted cash projections; a lack of control over expenditure, which is operated by a large network of spending units; and, resulting from the latter, poor visibility as to government commitments and obligations through the existing fiscal reports. Key reforms must be undertaken to foster fiscal discipline, regain control over the expenditure chain, and stabilize and reduce the stock of arrears. They are presented in descending order of emergency:

- **Restore a legally compliant expenditure process.** Currently, the three phases of the expenditure (i.e., commitment, verification and payment) occur simultaneously. There is little information and control over commitments, expenditure float, and arrears. It is recommended to restore the commitment and verification phases.
- **Streamline the network of spending units (UGBs).** The sheer number of UGBs (over 1,600) hampers the allocation of funds and budget monitoring. UGBs with low financial activity hardly reach best standards for an effective management of the budget. The government should gradually group UGBs and strengthen their capacities.
- **Improve the credibility of budget ceilings.** Although forecasts of macro-aggregates have improved, there is a need to enhance the credibility of the composition of budget. This can be done through a more efficient process and techniques for budget preparation.

- **Optimize government liquidity.** The government should pursue its efforts to pool cash inside the treasury single account. It should also introduce a more dynamic approach to cash management to avoid, to the best possible extent, disruptions in expenditure.

Table 1. Five Recommendations to Regain Control over Budget Execution

Recommendations	Timelines	Possible support
1 Identify and Clear the Stock of Arrears		
Action 1 Seek donor's funding and select consulting firm for stock taking of arrears	By March 2018	IMF, Sweden
Action 2 Design and publish a strategy, set data base framework and institutional	By June 2018	
Action 3 Open time widow for claimants to submit claims	June-July 2018	
Action 4 Verify claims, report related expenditure / debt to suppliers in e-SISTAFE, prioritize clearance, schedule payments and lending operations	September 2018	
Action 5 Proceed with, and report on, arrear clearance	Continued	
Action 6 Open second widow time for claimants	January 2019	
2 Restore the Expenditure Chain		
Action 1 Set quarterly ceilings for commitments	From January 2018, continuous	IMF, European Union, USAID, Switzerland, Austria, GIZ
Action 2, 3 UGBs record their commitments and verification in e-SISTAFE, in due time		
Action 4 Train budget managers (central and provinces levels)		
Action 5 Make mandatory the commitment note issued by e-SISTAFE and inform suppliers		
Action 6 Improve Treasury forecasting technics for Financial Programing		
Action 7 Strengthen internal audit to control that expenditure chain is effectively restored		
Action 8 Implement commitment control pilots in a selected set of UGBs (all central level)...		
... (in some provinces)		
... (in all provinces)		
Action 9 Approve a manual for expenditure and commitment control	By December 2018	
3 Manage the Aggregate Cash Balance more Pro-Actively		
Action 1 Finalize and circulate the <i>diploma ministerial</i>	End-2017	IMF/Denamrk, AFS, DFID
Action 2 Introduce automatic end-of-day sweeping of balances in transit accounts and further minimize the use of advances	1st quarter 2018	
Action 3 Continue to close accounts in commercial banks and transfer the balances to the CUT	Ongoing	
Action 4 Begin cash flow forecasting over six to 12-month horizon	Early 2018	
4 Enhance Budget Credibility		
Action 1 Analyze and publish the deviations from Budget Law to CGE	2018	IMF/Belgium, Ireland, World Bank/DFID, AFS, European Union
Action 2 Determine expenditure aggregates and include identification of the stock of, and plan to clear arrears	2018	
Action 3 Continue to insist on a medium-term support framework with donors to ensure timely commitments and disbursements of project finance	Ongoing	
5 Streamline Spending Units Network		
Phasing in: Define targets, timelines and action plan	By March 2018	AFS, European Union
Action 1 On a voluntary basis regroup small budget UGBs	By June 2018	
Action 2 Prepare large mergers simultaneous with budget preparation meetings	By September 2018	
Action 3 Start FY 2019 under the new budget management framework	By January 2019	
Action 4 Complete remaining planned mergers	By September 2019	
Action 5 Start FY 2020 under the new framework	By January 2020	
Action 6 General Inspectorate of Finance reports on experience	By June 2020	

I. Managing Domestic Arrears

1. Expenditure arrears are financial obligations, incurred by any level of the public sector, for which payments have not been made by the due date. Payments may be overdue based on a particular legal obligation (such as payment of social security benefits or salaries), a specific contractual commitment (such as payment for construction of a road), or a continuing service arrangement (such as payment for electricity supply). The value of expenditure arrears constitutes the amount of the original overdue payment, as well as any interest or financial penalties that the government might accrue.

2. Unlike Mozambique, many countries consider arrears as obligations that are due and not paid within 90 days following delivery or an agreed date for payment. Expenditure arrears are a subset of payables that have remained unpaid beyond a due date for payment, that is, after a specified number of days after the date on the invoice or contract, in accordance with a law, regulation, government payment policy, or local practice. Among many other countries, Portugal, eight member-Countries of the Western Africa Economic and Monetary Union (UEMOA), six member-Countries of the economic and monetary community for Central Africa (CEMAC) record arrears as the due obligations unpaid 90 days after delivery of service or good, adding to their public debt. Mozambique's procurement law fixes a shorter time lapse of 30 days.

A. Domestic Arrears are a Burden on Mozambique's Economy

3. Mozambique's accumulated stock of arrears adds to the debt burden. Since 2015, the economy has been affected by lower commodity prices, declining foreign-exchange inflows, rising inflation, and substantial exchange rate depreciation. Following three years of large deficits, and absent further fiscal consolidation, the fiscal deficit is expected to expand, while domestic arrears stemming from overspending and limited access to domestic financing continue to build up. In 2017, the stock of arrears has reached 3.7 percent of GDP¹, further adding to the total stock of debt (78.2 percent of the GDP), which is already in distress. These arrears are not recorded in public financial accounts.

4. The accumulation of expenditure arrears can have serious negative effects on the domestic economy. The economic consequences² can include the following:

¹ Stock disclosed by the authorities without many details (i.e., only an aggregate decomposition by (i) past three years and previous years, (ii) current versus capital expenditure, and (iii) central versus provincial and district levels of expenditure). The mission was unable to assess this amount.

² Adapted from the 2014 Fiscal Affairs Department Technical Note and Manual, *Prevention and Management of Government Expenditure Arrears*, by Prepared by Suzanne Flynn and Mario Pessoa.

- *Reduced economic growth.* Payment arrears can cease or delay economic activity, resulting in a reduced pace of economic activity and increased unemployment.
- *Increased cost of service provision.* Government suppliers try to mitigate the risks and opportunity cost of delayed payments by adjusting their initial prices upward.
- *Reduced or interrupted public service delivery.* In the absence of payment, suppliers typically disrupt service delivery. Also, as the cost of supplies rise, the government may be forced to reduce their spending or put investment projects on hold.
- *Increased rent-seeking.* Chronic payment delays also increase the incentives for rent-seeking and collusion between government and suppliers, as the latter seek to accelerate payment or circumvent expenditure control procedures.
- *Increased interest rates.* Illiquid suppliers typically borrow from banks to weather cash shortages, adding pressure to credit markets and driving up interest rates.
- *Second-round fiscal costs.* Government suppliers are inclined to withhold payment of taxes until, in turn, they receive payments due to them from the government.

B. Clearing the Stock of Arrears

5. The accumulation of government expenditure arrears is a common problem in public financial management (PFM). A 2015 survey of 121 Public Expenditure and Financial Accountability (PEFA) assessments revealed that in only 31 percent of surveyed countries the stock of central government arrears was less than 2 percent. Some IMF program countries accumulated expenditure arrears in excess of 20 percent of GDP. Arrears-related structural benchmarks or performance criteria were included in 95 percent of 140 IMF-supported programs between 1999 and 2012, and included reforms to strengthen government capacity to identify, and clear existing arrears, and to avoid the accumulation of new arrears.



Box 1. Clearing Outstanding Arrears, Angola Country Case, 2002-2003

Following the civil war, Angola reached a peace agreement in April 2002. From the period of 1992 to 2003, the Angolan Government acknowledged claims of arrears of US\$13 billion. Shortly afterward, the government started implementing a 6-year strategy to clear the arrears. Subsequently, Angola suffered new rise of arrears due oil crisis in 2008 and 2014, and applied the same approach. The strategy involved six stages:

- **Acknowledgement of claims** – The government established a calendar for all creditors to submit their claims of unpaid invoices dating from 1992, defined the information and documents required to support the claims, and set three different stages to handle the process: unpaid invoices for 1992-97, for 1998-2003, and all transactions after 2003.
- **Verification** – This stage comprised of the verification of the legal condition of the creditors, how well the companies were established, whether they complied with tax obligations, and whether the claims were recorded in the balance sheets. The process also included the verification of sufficient budget provisions in the related budgetary unit.
- **Validation** – The government contracted an independent auditing company to validate each claim based on the specific criteria to ensure its legitimacy.
- **Negotiation** – The Ministry of Finance reached an agreement through negotiation with legitimate creditors, set a calendar of payments, partly in cash and partly in treasury bonds with maturities up to 5 years, a 5 percent coupon, and payments per semester.
- **Payment** – Small claims were paid in cash, while others received bonds (at first indexed to the exchange rate, then later to the consumer price index) to ensure that creditors could have liquidity over time. Subsequently, the bonds were traded in secondary market.

Source: Angola Archives.

Taking stock of arrears

6. A thorough stock take of the outstanding stock of arrears is necessary, in order to understand the extent, composition, and vintage of the government's unpaid bills and prioritize their clearance. Governments typically use two approaches for a census of arrears:

- **Purchasers' side:** Out of spending units' ledgers and records, the government takes stock of due obligations not paid. Absent a mechanism to track arrears from the systems in use to process expenditures, the Treasury must demand spending units' records, pending invoices, and all other due obligations.
- **Suppliers' side:** A dedicated unit (most often an audit institution) opens a limited-time window for creditors to bring their claims forward. Claims should be documented to government specifications, including a timetable for the stocktaking exercise and a clear definition of the information requirements. A cut-off date for inclusion of new arrears should be established to encourage timely reporting and to avoid the possibility of fraudulent claims.

7. Once collected, data on the outstanding stock of arrears should be verified to ensure that the claims are genuine and not fraudulent. This activity can be undertaken by the supreme audit institution, an inspectorate or internal audit function in the ministry of finance, or

private audit firms. This process of verification of claims should be subject to tests to verify their existence, value, and vintage, using the following guidelines:

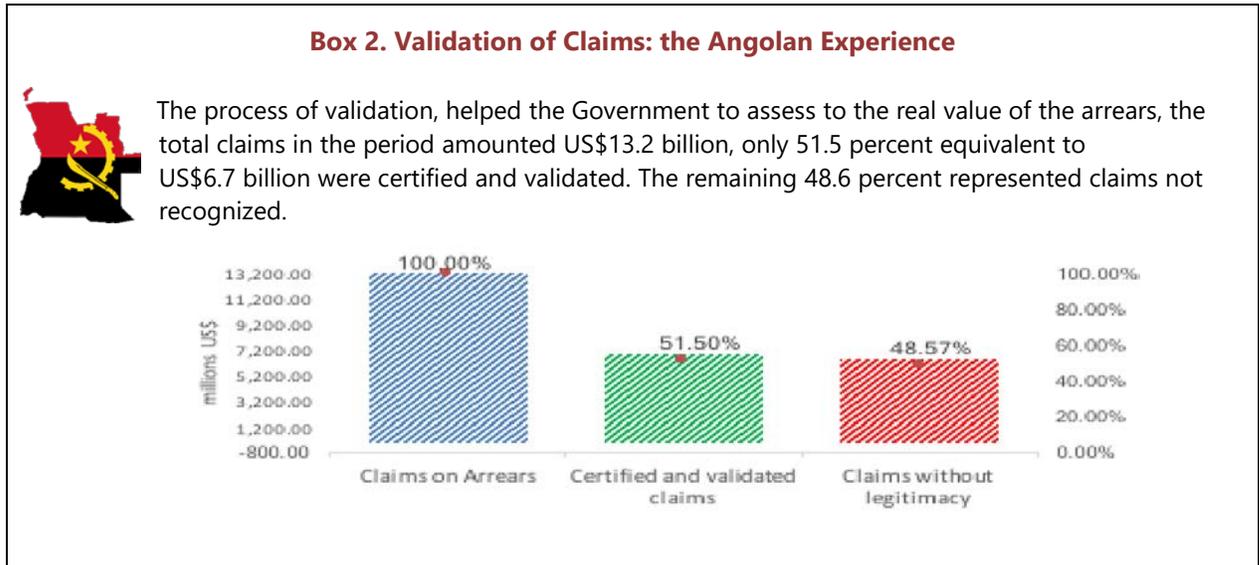
Table 2. Process of Verification of Arrears

Check	Approach
Legal validity	Check that the transaction was duly authorized and consistent with budgetary authorizations. If otherwise, appropriate sanctions should be applied to officials, and validity of the claim should be legally assessed.
Evidence of delivery	In case of doubt or for material transactions, delivery should be reconfirmed by requesting information from the supplier (e.g., its financial records). In more complex transactions, particularly those related to investment projects, evidence of progress or a completion certificate should be required.
Payable value	Invoices should contain the amount and the reference to the purchase order; If doubtful, cross-check with suppliers' financial statements.
Payable vintage	Check by reference to the invoice and other supporting documentation.
Tax compliance	Revenue authority checks to ensure that suppliers are registered taxpayers and not delinquent in tax payments.

8. Once collected and verified, arrears data should be analyzed and classified for the purposes of arrears clearance. A database of valid outstanding payments should be established and maintained centrally by the ministry of finance. This can be a resource-intensive and time-consuming exercise, requiring dedicated staff resources. A practical approach would be to focus in the first instance on large claims, gradually expanding the coverage of the database. To allow for appropriate categorization, the following data should be captured for each outstanding claim:

- **Vintage:** Classify arrears by how long they have been overdue: one to three months, three to six months, six to 12 months, and more than 12 months. Older arrears should be classified by the financial year of incurrence.
- **Debtor:** Record the government entity incurring the liability: central or subnational government, extra-budgetary fund, or state-owned enterprise.
- **Creditor:** Classify creditors' names by type: employees, private individuals or businesses, financial institutions, extra-budgetary funds, or state-owned enterprise. Distinguishing extra- and intra-government obligations will facilitate clearance of the latter.
- **Economic category:** Classify arrears by economic category, such as compensation of employees, acquisition of goods and services, transfers, acquisition of nonfinancial assets, and acquisition of financial assets.
- **Currency:** Capture the currency in which the obligation was originally denominated to ensure that sufficient foreign exchange is available to meet external arrears.
- **Contractual terms:** Identify any relevant information, including whether the outstanding balance results in interest and/or penalties for non-payment.
- **Payment status:** Distinguish, within the total amount due, the amount already paid, the amount outstanding, and any rescheduling, discounting, or factoring of the unpaid obligation.

9. **When established, the database should be kept up-to-date, showing the discharge of arrears and any subsequent additions to the stock.** The entire stock of accounts payable should be classified as liabilities, further classified as either domestic or foreign, and included in the government’s measurement of gross debt. Payments in arrears should be included as a memorandum item to the government’s fiscal table (e.g., the *mapa fiscal*).



Source: Angola Archives.

Clearing the stock of arrears

10. **Once a database of valid claims on government has been established, a set of criteria for prioritizing their verification should be determined.** The prioritization of arrears clearance should be based on transparent criteria. These might include the following:

- **Socioeconomic impact:** Arrears to economically sensitive or vulnerable sectors, such as salaries of low-income workers, pensions, and social benefits, should be prioritized.
- **Vintage:** Older obligations should have priority over newer obligations.
- **Cost:** Arrears that accrue interest and penalty charges should be prioritized.
- **Risk:** Arrears that may result in legal action, disruption of essential services, or cost escalation of future supplies to government should be prioritized.
- **Currency:** Payment of foreign currency denominated debt should be prioritized if domestic currency devaluation is outpacing domestic inflation.
- **Creditor:** The clearance of intra-government debts should be prioritized, as this can be done administratively through the annual budget at minimal net cost.

11. Once the criteria for prioritizing arrears for clearance have been established and published, the payment or verification of obligations can begin. A technical group should oversee arrears verification to ensure the consistent application of the principles of the strategy. For repayment modalities, the following options may be considered:

- **Pay cash and discount:** Depending on available fiscal space, the best option is cash payments to avoid further financial penalties or interest and enable suppliers to rebuild their working capital. As part of these negotiations, creditors may agree to a discount; however, this approach should be treated with caution, since it can have the effect of increasing costs to the government if suppliers inflate prices for future supplies in anticipation of expected future discounting.
- **Reschedule payments:** If sufficient liquidity is not available, the Treasury may negotiate a schedule of payments with creditors according to a pre-defined calendar, a no-discount option, and an interest rate. This option may be more viable if the current market conditions are not ripe for the placement of sizeable amounts of new debt.
- **Earmark loans:** Arrears can be paid off by borrowing in financial markets. The proceeds of the borrowing operations would be earmarked for the reduction of the stock of arrears. This option increases the stock of explicit government debt, as it records arrears as part of the domestic debt, but it does not decrease net worth, as government is explicitly recognizing a liability that existed as an implicit obligation to pay.
- **Securitize arrears:** This approach directly transforms them into government debt. Securitization options include issuing promissory notes (discountable by commercial banks), marketable treasury bills, or bonds directly to creditors. However, the direct securitization of arrears also has many disadvantages (see Box 3).
- **Settle with state-owned enterprises:** A book entry can be made reflecting all outstanding bills, leaving a single remaining debt that can be resolved through budget transfers to SOEs. If reciprocal payments are owed to government, such as in the form of dividends, these can be netted off against the required cash injection.

Box 3. Securitizing Arrears? Pros and Cons	
Pros	Cons
<p>Allows the government to select the debt maturity structure and repayment profile that best matches its financing needs.</p> <p>Gives creditors the opportunity to raise liquidity by trading the securities in the secondary market, possibly at a discount.</p>	<p>Creates strong moral hazard incentives for budget managers to continue to over-commit resources in the expectation that they will eventually also be securitized and paid centrally.</p> <p>Trading securitized instruments in secondary market(s) comes at the cost of discounts that reduce the working capital available to the supplier compared with cash payment.</p> <p>Securitization of the outstanding stock of arrears hampers prioritizing payment of the most urgent arrears, as securities are issued to all creditors on equal terms.</p>

Box 4. Preventing Further Accumulation of Arrears: the Angolan Experience



Apart from the strategy of clearing the arrears, a set of policies were implemented to strengthen the public financial management system. Issuance of a “commitment note” was required for all public acquisitions of goods and services, for the sake of commitment control. A legislation was passed with definition of arrears as invoices unpaid 90 days after issuance, this facilitated the monitoring process of arrears accumulation on a quarterly basis.

Additional normative and operational measures were implemented to prevent public procurement loopholes, all contracts above US\$ 0,5 million were subject to approval by the Minister of Finance, and contracts above US\$ 10 million had to be signed by the President with pre-approval of the Minister of Finance prior submission to the Audit Office (Court of Account).

With the oil price drop, Angola faced new arrears, mainly related to public investment projects (PIP). As a mitigation measure, authorities are now aligning the PIP portfolio to the medium term fiscal framework, and monitoring projects before they start. Kick starting new investment projects needs to meet the following prerequisites: transparent and sufficient budget allocations, and tenders under the oversight of the public procurement office.

Source: Angola archives.

Recommendation 1. Identify and Clear the Stock of Arrears

Background

Despite government's efforts to rein-in expenditure in line with target balances, domestic arrears are being accumulated to the tentative estimate of Meticaï 30 billion (roughly one fifth of 2017 projected tax revenue). In addition, the overall debt remains in high risk of distress. A restructuring of public debt owed to private creditors is unavoidable.

Key measures

- Kick-start a census of obligations not paid in due time by the public sector, and maintain a comprehensive data base on creditors, claims, and repayments made.
- Check and reject illegitimate claims, seek creditors' agreement on arrear clearance modalities (including discounts, cash repayments, and possible securitization).
- Implement arrear clearance per a prioritized schedule consistent with government fiscal stance.

Institutional arrangements

The government needs to develop a strategy for arrear clearance including the following five steps: stocktaking, verification, classification, prioritization, and verification of arrears. The institutional framework for strategic guidance and oversight should involve the MEF, along with the court of account (TA). Implementation of the strategy lies upon the Treasury department (repayments and lending operations) and the General Inspectorate of Finance (census of creditors and verification of claims) with support from a consulting firm to be financed by a donor.

Risks and mitigation measures

The government should publish its plans, timetable, and criteria for the verification of arrears, thereby minimizing perception of favoritism and corruption in the process.

Financial instruments for arrear clearance should be wisely and transparently chosen to avoid downside risks of debt sustainability, and budget managers' lack of accountability.

Schedule for clearance should be included in multiyear projections for spending and debt.

Schedule for implementation

Action 1	Define main outlines of the strategy, seek donor funding and select a consulting firm to stock take the arrears	By March 2018
Action 2	Design and publish a strategy, set data base framework and institutional arrangements	By June 2018
Action 3	Open time widow for claimants to submit claims	June-July 2018
Action 4	Verify claims, report related expenditure / debt to suppliers in e-SISTAFE, prioritize clearance, schedule repayments and lending operations in line with multiyear fiscal policy	By September 2018
Action 5	Proceed with, and report on, arrear clearance	Continued
Action 6	Open second widow time for claimants and collect remaining unsolved legitimate claims	January 2019

C. Preventing Further Accumulation of Arrears

12. **To fend off further accumulation of arrears, the Mozambique government needs to resolve the weaknesses in expenditure process, budget allocations and cash management.**

Through meetings with officials and a one-day seminar, the mission identified the following underlying causes for arrear accumulation (also see Figure 1):

To be discussed in Chapter 2:

- **The ministry of economy and finance has limited control on budget execution.** This major weakness stems from an overly simplified process that does not clearly distinguish the main phases of expenditure and prevents proper commitment control.

To be discussed in Chapter 3:

- **The budget, specifically its decomposition in administrative items, is not credible.** Despite rather accurate revenue forecasts, budget allocations to spending units are not properly calibrated to their financing needs, and subject to frequent in-year changes. These unstable budget allocations lead spending units to commit resources in excess of their budget allocation resulting in overspending and/or arrears.

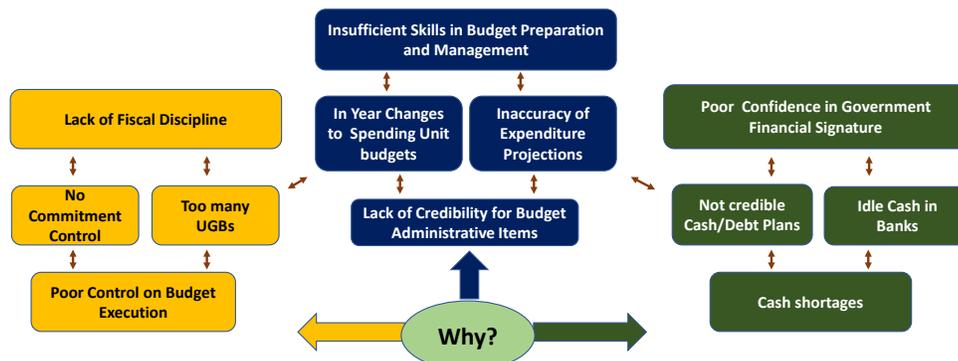
To be discussed in Chapter 4:

- **Cash supply does not sustain a smooth continuation of expenses.** This results from revenue scarcity (which is largely out of the government's hands) and a perfectible management of cash within and outside the treasury single account (CUT).

To be discussed in Chapter 5:

The sheer number of spending units (UGBs) hampers all of the above-mentioned functions. Budget execution and preparation and cash management are made uneasy. UGBs with low financial activity hardly reach best standards, skills, and economies of scale for budget management. There is a need to streamline this network.

Figure 1. Underlying Causes of the Arrear Fiscal Cliff

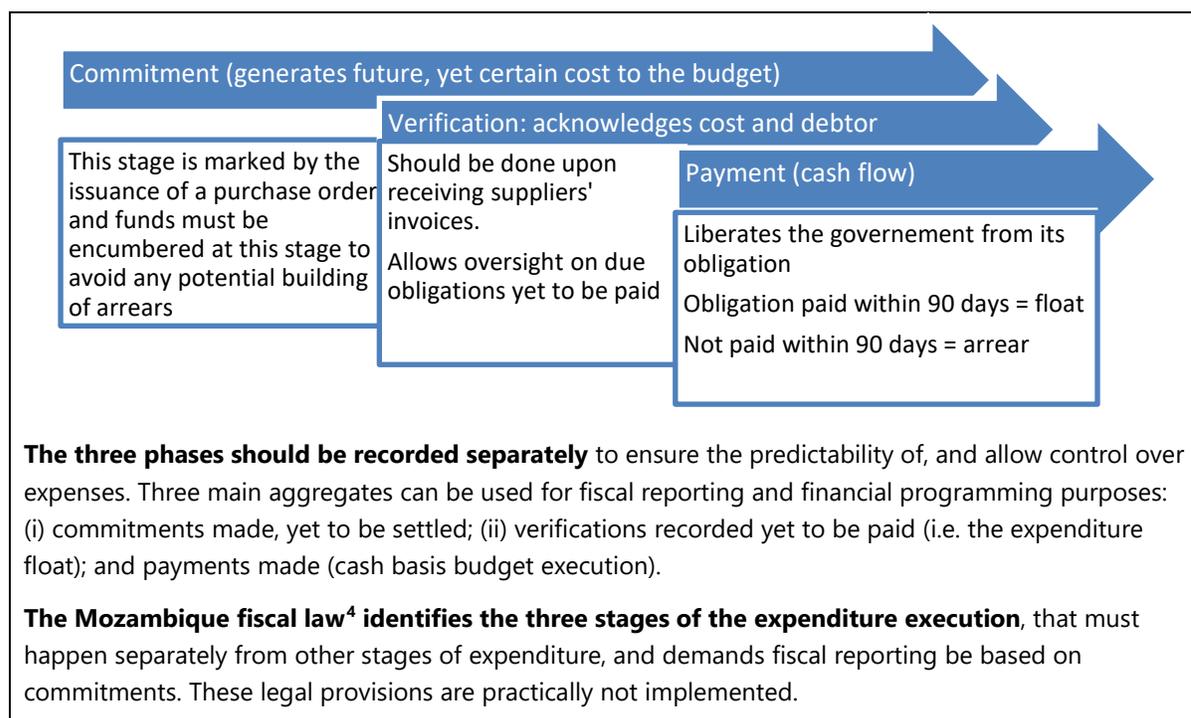


II. Strengthening the Budget Execution Process

13. Expenditure control is an essential element for fiscal discipline, sustainability, and quality of expenditure. There should be specific forms of control during the different stages of the budget execution process, some being centralized at the ministry of finance while others can be decentralized. Systematic controls of budget execution will help comprehend the dynamics of expenditure, the relevance of budget allocations, and the efficiency of policies implemented by the spending units.

14. The expenditure process should allow recording at least three key stages of expenditure. For control purposes, the literature³ distinguishes seven stages of the expenditure cycle (i.e. authorization, apportionment, reservation, commitment, verification, payment order and payment). Of these seven stages, three have a direct impact on government's obligations and debt, as shown in Figure 2: (i) commitment; (ii) good/services receipt and verification; and (iii) payments. For the sake of arrear control, it is crucial to record at least these three stages.

Figure 2. Three Key Phases in the Expenditure Chain



Source: Mission.

³ See FAD Technical Note and Manual, *Expenditure Control, Key Features, Stages, and Actors*, by Sailendra Pattanayak.

⁴ Law 9/2002 of 12 of February, Law of Financial Management System.

A. Loose Control over Budget Execution

15. The budget is executed through the public sector financial management system (SISTAFE), which can cover main stages of the expenditure. The SISTAFE is robust enough to record all transactions made by the spending units (UGBs). It records different phases in the expenditure workflow including commitments, verifications and payments. Although commitments are not recorded yet, a simple patch could be implemented to do so. SISTAFE is about to be upgraded to cover all phases of budget execution from allotment of funds to payments, including the procurement phase (pre-commitment stage).

16. Not all UGBs have access to e-SISTAFE. Due to constraints mainly related with interconnections and power supply, a set of UGBs, mainly at the district level, execute the budget with technical support from other spending units to access the system, or receiving advanced payments. As for the latter the expenditure process is made recessively, with payments occurring before the certification and commitment phases.

17. The Treasury has set a system by which transactions are entered in the system as they mature for payment, not when the individual stages happen. Practically, spending units keep invoices and contracts in ad hoc ledgers, out of e-SISTAFE. Then they operate spending by the sole amount of transactions complying with the weekly cash ceiling set by the Treasury. All steps of expenditure are recorded within one week⁵ as follows: commitments and verifications are recorded in SYSTAFE simultaneously; and payments are made within four days, e.g. the time lapse the Treasury needs to execute the disbursements.

18. Squeezing expenditure phases into such a short time lapse, denies capturing commitments and invoices when they occur. It encourages the neglect of critical documents such as contracts, receipts and invoices that are put on the back burner until the last moment when transactions are done. Therefore, fiscal reporting in Mozambique is incomplete and does not provide a fair reflection on government obligations. Decisions on fiscal policies are poorly informed in the lack of accurate data on real execution process.

19. Commitment control is loose or inexistent. Complying with Mozambique's legal framework, investment contracts shall be submitted by spending units to the supreme audit (TA) for a control on procedural regularity, not budget compliance. Prior the TA's control, the Treasury should conduct a preliminary control on commitments (*pre-cabimento*). In practice, the ceiling issued by the Treasury is not binding the purchasing UGB, and does not prevent them from over purchasing in excess of their budget. Practically most commitments are not controlled upstream, and the financial sustainability of spending units' procurement is not ensured.

20. Reports on budget execution produced by the General Accounting Directorate are not realistic. Table 3 indicates the final report of operating expenditure for 2015, it is

⁵ Source: SISTAFE database provided by CEDSIF.

symptomatic that the level of liquidated expenditure is exactly the same as the level of paid expenditure across the economic classification lines, assuming no existence of arrears. However, the stock disclosed by the authorities related to 2015 amounts to 3 billion meticaïs, and 9 billion meticaïs in 2016 although fiscal statements constantly report zero arrears.

Table 3. Summary of the 2015 Fiscal Statement
(in millions of meticaïs)

Ord	Economic Classification	Adjusted Budget	Committed Expenditure	Verified Expenditure	Paid Expenses
1	Personnel Expenditure	64.484,8	64.105,5	64.092,1	64.092,1
2	Goods and Services	23.403,3	22.537,2	22.452,7	22.452,7
3	Interest on Debt	7.577,4	7.577,4	7.577,4	7.577,4
4	Current transfers	20.016,9	19.864,7	19.858,0	19.858,0
5	Subsidies	2.277,3	2.213,4	2.213,4	2.213,4
6	Pending payments of previous Year	218,1	162,4	162,3	162,3
7	Other current expenditure	781,8	745,8	745,8	745,8
8	Capital Expenditure	5.113,2	400,3	400,3	400,3
9	Total	123.872,8	117.606,7	117.502,0	117.502,0

Source: Ministry of Economy and Finance (MEF) Expenditure Execution Report of 2015.

21. There is little financial information on UGBs' financial needs during the fiscal year.

Absent any information on upcoming payments (i.e., verifications yet to be paid) the Treasury projections for expenditure are shorter than one month. Therefore, the Treasury provides UGBs their ceilings for expenditure on a weekly basis, based on short-term availability of cash, and UGBs proceed with payments within less than one week.

B. Improving Expenditure Control

22. Controlling and recording commitments is key to preventing expenditure arrears.

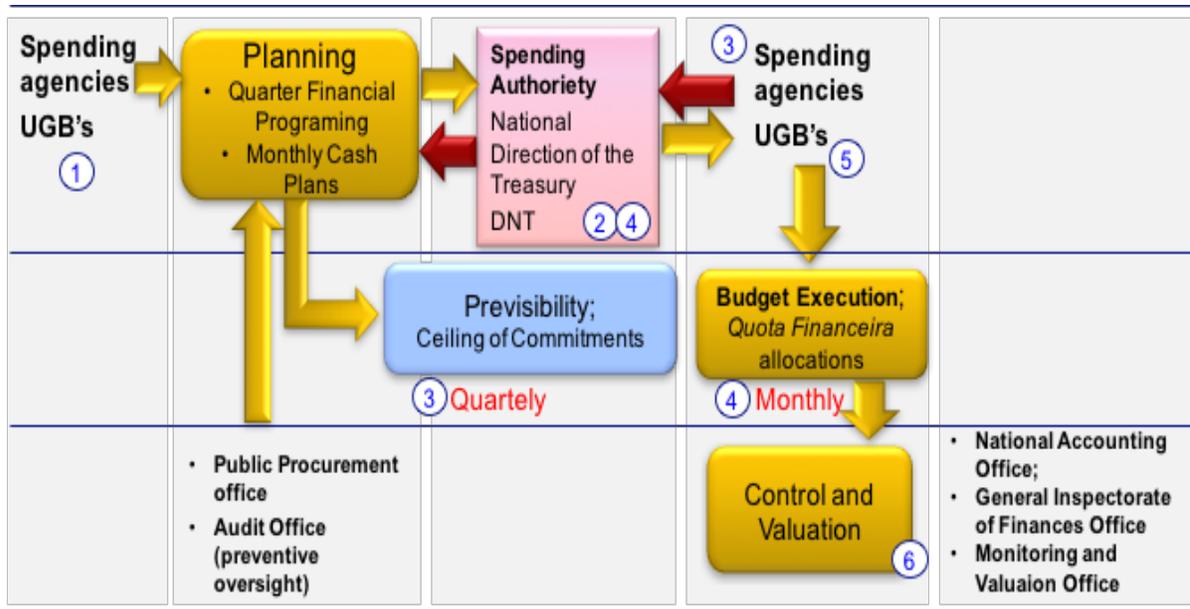
The commitment of resources is a critical stage of the expenditure process. Controlling commitments is essential for controlling expenditure. The key objective of commitment control is to manage the initial incurrence of obligations, rather than the subsequent cash payments, in order to enforce expenditure ceilings and avoid expenditure arrears.

23. The UGBs should be given commitment ceilings sufficiently in advance so as to improve the quality of public expenditure management downstream. Restoring an effective process for commitment control implies that apportionment by the Treasury will be made on a quarterly basis. This would provide the following improvements: (i) the UGBs will have sufficient room to enable records of verification stage; (ii) the process of programming can be implemented interactively, starting with the submission of financial needs of funds by the UGBs to the Treasury; and (iii) the Treasury would gain critical information to consolidate a quarterly cash plan.

24. Restoring the normal functioning of the expenditure chain does not need further developments in the system. A new functionality is being developed to record procurement via e-SISTAFE. This functionality could strengthen public procurement management and ensure budget allocations exist and are reserved before launching the public tender (adding a pre-commitment stage). However, the budget execution process for the stages of commitment and verification might still fall out of e-SISTAFE if the measures recommended above are not taken. Therefore, there is no need to wait to complete the current pilot of this new functionality to include public works and to roll-it throughout the country during the next two years.

25. The Treasury should change its business model and move from the current cash rationing to a financial programming approach. Figure 3 indicates what should be the role of the Treasury in forecasting the quarterly expenditure, based on previsions made by spending agencies, the revenue authority and the debt management department. This action will give foster financial programming by the UGBs and restore the three phases of expenditure by recording the commitments in due time and the verifications in e-SISTAFE.

Figure 3. Institutional Changes Needed to Restore the Chain of Expenditure



- 1- UBG prepare the scheduling of engagements for the quarter;
- 2- DNT prepares the Quarterly Treasury Budget on the basis of this releases commitment ceilings for UGB's;
- 3- UBG, record the commitments and liquidations with flexibility within the quarterly limit allowing the entry of all invoices of certified deliveries in e-SISTAF;
- 4- DNT prepares the Monthly Treasury Plan, releases the ceilings of financial quota for issuing of payment orders by UGBs;
- 5 - UGB, make payments according to the limit released from the Monthly Financial Quota, within the limit of the liquidations that have already occurred;
- 6-DNCP, the real-time monitoring of the commitments, liquidations, payment and payable expenses.

Source: Mission.

Recommendation 2. Restore the Expenditure Chain

Background

The phases of the expenditure currently are recorded simultaneously, which is not compliant with the fiscal law⁶. There is little information and control over commitments, expenditure, and arrears.

Key measures

- Set quarterly ceilings for commitments, based on revenue forecasts;
- Immediately restore the commitment and verification phases in e-SISTAFE;
- Raise awareness through seminars on the need to restore the normal expenditure process;
- Improve financial programming by the National Treasury Directorate;
- Revise the calendar of data collection from UGBs so that the Treasury can prepare the quarterly financial programming;
- Gradually implement the commitment control, starting from the UGBs at central level.

Institutional arrangements

The National Directorate of Treasury will need to coordinate with CEDSIF to ensure availability of support and ensure the implementation process goes smoothly.

Risks and mitigation measures

The restoration of the expenditure phases will require extensive capacity development. While the chain of the expenditure is being reestablished in the system, information on commitments and verifications should be manually submitted by the UGBs to the accounting directorate (DNCP) and reported in fiscal reports. Communicating to the private sector is important to bring the awareness on how important is the effective control of public expenditure.

Schedule for implementation

Action 1	Set quarterly ceilings for commitments	By January 2018
Action 2	UGBs record their commitments in e-SISTAFE upon contracting	January 2018
Action 3	UGBs record their verifications in e-SISTAFE upon receiving suppliers' invoices, per legal provisions set in SISTAFE Law	January 2018
Action 4	Train budget managers (central and provinces levels)	From January 2018, continuous
Action 5	Make mandatory the commitment note issued by e-SISTAFE and inform suppliers	
Action 6	Improve the Treasury's forecasting techniques for financial programming	
Action 7	Strengthen internal audit to control that expenditure chain is effectively restored	From March 2018, continuous
Action 8	Implement commitment control pilots in a selected set of UGBs all central level in some provinces in all provinces	March 2018 June 2018 September 2018
Action 9	Based on the experience from the pilot, issue a manual for expenditure and commitment control	By December 2018

⁶ Law 9/2002 of 12 of February, Law of Financial Management System.

C. Improving Fiscal Reporting

26. Fiscal reporting fosters accountability and improves fiscal policy decision making. It is a powerful tool to report on budget execution to the public, to base policy decision-making on a fair view of government finance, and to give clear outlook to managers on available resources. Fiscal reporting is a legal requirement in Mozambique's legal framework. The Constitution requires fiscal reporting from the government to the Parliament and the public, and the SISTAFE law and regulations outline how and when this should be done.⁷

27. Quarterly and year-end execution reports are produced and submitted to the Parliament on time, but their content can improve. The budget execution reports (REOs) are published 45 days after the end of each quarter, and the year-end execution report and financial statement (CGE) is submitted end-May of the following year. These reports are public and include data available for the period, on a cumulative basis, in great detail. A substantial part of these data is provided by the system, and the rest is captured from e-SISTAFE. However, important data such as information on real commitments and verifications are missing in these reports. Information on payments is available, but transactions outside the treasury single account (CUT) need manual processing before being reported. In some periods, large amounts of unexplained transactions have been observed. Other concerns are the misalignment with the 2014 Government Finance Statistics Manual (GFSM 2014), the absence of balance sheet reporting on the main financial liabilities and assets, and late discussion of the CGE in Parliament with two-year lag.

28. Fiscal reporting needs to be further streamlined and its production automated. Financial reporting functionalities and accounting processes in e-SISTAFE could be further improved, mainly by incorporating data available in other IT systems and automatizing the production of the REOs and the CGE. These reports should adopt GFSM 2014 framework and include *Mapa Fiscal* overall presentation of the transactions for the period⁸. A simplified balance sheet should be included in the CGE to report on the main financial assets and liabilities known⁹. While the chain of expenditure is being reestablished in the system, information on real commitments and verifications should be manually submitted by the UGBs to the accounting directorate (DNCP) and reported in the REOs and CGE from end-2017. This transitory measure would be discontinued when the system starts capturing the information in due time.

⁷ Articles 179, 206, and 230 of the Constitution; Articles 37, 48, and 50 of the SISTAFE Law; and Articles 24 and 27 of SISTAFE regulations.

⁸ Operational Statement in GFSM 2014, includes revenues, expenses, and transactions in assets and liabilities.

⁹ This should include debt balances, payables, cash and bank balances, financial investments, other financial assets, and report on contingent liabilities. For further details see FAD TA Report from Delphine Moretti, *Reassessment of Public Accounting Reform Roadmap* (July 2014).

29. The stock of arrears resulting from the validation process must be immediately reported. These arrears correspond to extra-budgetary expenditures that were not committed and verified when made in the past. Therefore, the related debt to suppliers is not accrued. Best practice suggests reopening the accounting of previous years and registering the liabilities and associated expenditures in the periods they occurred. Given the difficulty of this approach and possible legal constraints to do so, a more practical solution is the one adopted by Angola. It consists of recording the expenditure and the liability to suppliers in the year they are validated. The verified stock of arrears must be shown in fiscal reports and statistics, even before the solution to clear them is agreed.

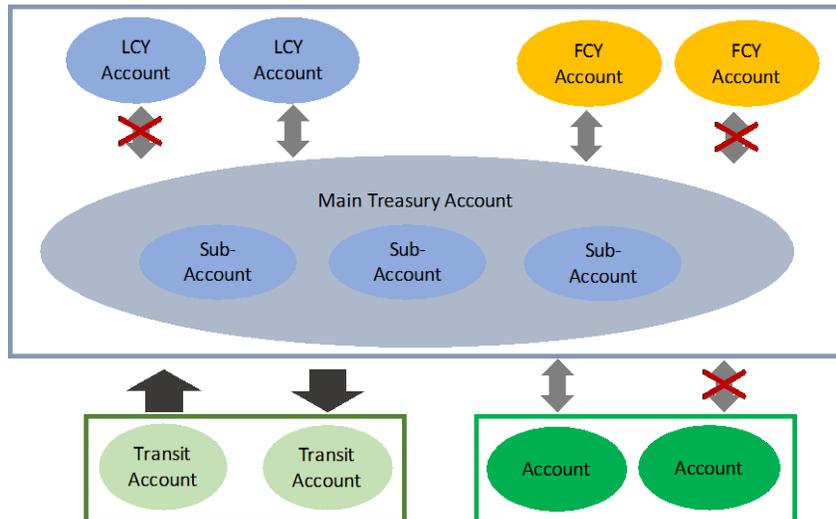
III. Optimizing Government Cash

30. Sound cash management contributes to orderly execution of the budget. The objective of cash management is to ensure that the government has sufficient liquidity at all times to pay obligations as they fall due, without the need to ration cash (and thereby interrupt predictable execution of the budget) and without accumulating arrears. Whatever the country's level of revenue, there are likely to be times during the year when there are mismatches between cash inflows and cash outflows, resulting in short-term cash surpluses or, more problematically for budget execution, short-term cash deficits. Banking arrangements that centralize the government's liquidity within a treasury single account are critical for optimization of liquidity by reducing the possibility of idle cash. Cash flow forecasting facilitates pro-active management of the cash balance, to eliminate (or mitigate) temporary cash deficits.

A. A Sound, yet Insufficiently Exploited Framework for Cash Management

31. The government's banking arrangements are built around a main account at the central bank, with links to other accounts at both the central bank and commercial banks. The main account functions as the CUT and is operated by the Treasury. It is possible with SISTAFE to set up sub-accounts within the CUT as ledger accounts. The government has other accounts, in both local currency and foreign currency, at the central bank that are outside the CUT; these are operated by the Treasury and by other entities. In some cases, legislation or contractual requirements may prevent deposits from being held within the CUT; in other cases, the accounts reflect custom and practice to-date. The degree to which these accounts are managed in coordination with the CUT varies, ranging from periodic or ad hoc pooling of liquidity to complete separation. The government also has accounts at commercial banks. Transit accounts are used to receive revenue and make payments when transactions cannot be executed directly from the CUT. There are other accounts at commercial banks in which cash is held on a more sustained basis; these accounts are operated largely by entities other than the Treasury. As with the non-CUT accounts at the central bank, the degree to which these commercial bank accounts are coordinated with the CUT varies (see Figure 4).

Figure 4. Current CUT and Banking Arrangements Architecture



Source: Mission.

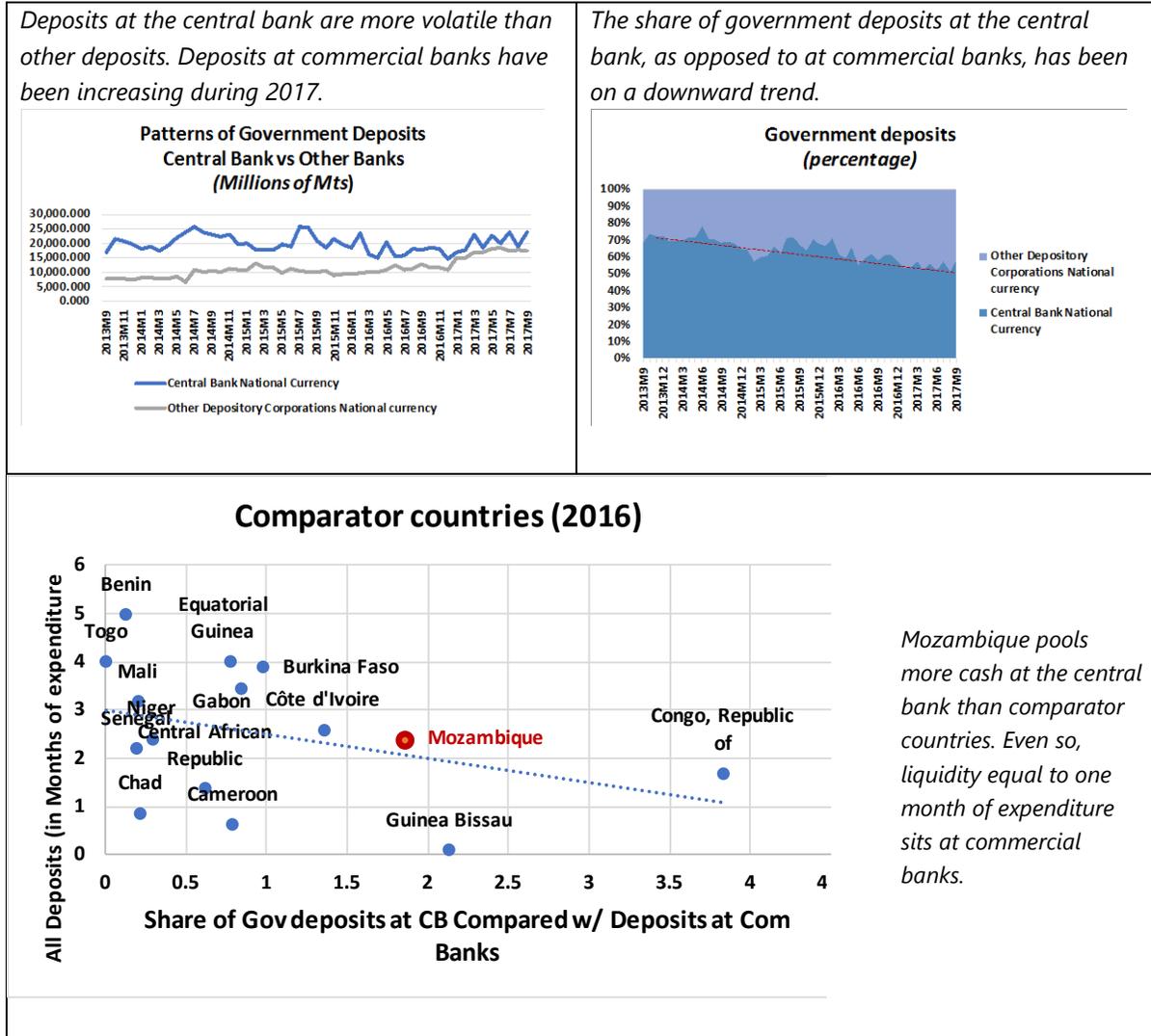
32. The main tools for cash planning are the “cash budget” and the “cash plan”. At the start of the fiscal year, the Treasury prepares the cash budget, which decomposes the approved budget by month. It is a largely static document, which undergoes few amendments during the year, unless there are changes in revenue forecasts. In addition, each month the Treasury prepares the cash plan, which is a cash flow projection for the coming month, broken down by week. It incorporates recent information on revenue receipts, the requirements of the executing units reported in e-SISTAFE, and any new information from sectors. These plans, which are passed to the Bank of Mozambique, are discussed at a weekly meeting chaired by the Minister at which decisions are made on the financial quotas to be released to UGBs in the week ahead.

33. The Treasury does not currently actively manage the government’s aggregate cash balance. It does not borrow or lend in the money market to maintain a steady balance in the CUT. The government is able to borrow short-term on an occasional basis when it forecasts an emerging cash flow constraint, but it does so by accepting liability for some of the treasury bills issued by the Bank of Mozambique for monetary policy purposes.

B. Making the Best of the Treasury Single Account

34. Progress in the roll out of e-SISTAFE continues to expand the use of the CUT. The number of UGBs has grown in line with the devolution of responsibility of some units in the provinces for service delivery, and currently stands at 1,654. Of them, however, 1,508 (or 91 percent) are fully connected to e-SISTAFE.

Figure 5. Main Features of the Mozambique CUT



Source: Mission.

35. Even so, significant liquidity lies outside the CUT—especially problematically outside the Bank of Mozambique, in commercial banks (see Figure 5). Cash advances continue to be made from the CUT into bank accounts outside the CUT, for instance, (i) in the case of UGBs that do not have access to e-SISTAFE; (ii) to pay transactions financed by donors that are not prepared to use the CUT for project expenditure; (iii) for payments made to suppliers in rural areas without bank accounts, for executing the budget in certain sectors; and (iv) and for petty cash payments. Advances are not swept back overnight into the CUT. Sectors tend also to have bank accounts for self-generated (or “technical”) revenue, although the same degree of visibility as to self-generated revenue could be achieved using sub-accounts within the CUT. Substantial assistance from donors continues to flow through accounts in the commercial banks, and not through the CUT. Prospects for moving donor funds into sub-accounts within the CUT should be investigated, but this is likely to be a medium-term endeavor.

36. The Treasury's efforts to close the accounts of budget entities at commercial banks need to continue. Thousands of inactive, infrequently used, or inappropriately opened accounts have been closed in recent years. New accounts continue to be identified. Moreover, the opening of new accounts outside the CUT continues to be permitted, with authorization 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. In the absence of routine reporting by line ministries and by commercial banks of the government accounts that exist at commercial banks, it is impossible for the Treasury to monitor the full extent of government liquidity. There is also the risk that line ministries may be opening bank accounts without permission from the Treasury. The Treasury has drafted a circular, in the form of a *diploma ministerial*, to clarify the regulations regarding accounts in commercial banks, and is awaiting approval to distribute it to UGBs; this should be pursued as a priority.

37. Delays in sweeping revenue into the CUT reduce the efficiency of cash management. The delays are of different kinds. Payments of taxes or self-generated revenue into a commercial bank may be held by the bank for two days before sweeping it to an account in the name of the relevant Financial Management Directorate (DAF). Most DAF accounts are in the Bank of Mozambique. The balances of the DAF account are then swept into the CUT. In many cases, this does not occur until the end of the month, but the Treasury notes that it monitors DAF accounts and may request that larger sums be swept more promptly. Revenue awaiting classification, linking the taxpayer's deposit to the relevant tax, may take longer, however, and the cumulative balances may be substantial; nonetheless, in principle there need not be any delay in transferring such revenue to the CUT, as classifying and recording the revenue can be independent of the movement of cash into the CUT. Self-generated revenues may also be held in transit accounts, although to the extent that those revenues will be available to the UGBs, they have an incentive to expedite the transfer to the CUT because only then does the budget authority potentially become available.

C. Improving Cash Planning

38. The cash budget is a useful tool to provide a monitoring benchmark. It can also inform the annual borrowing plan prepared by the Debt Management Department of the Treasury, particularly the timing of the local issuance of domestic bonds through the stock exchange.

39. In Mozambique, the monthly cash plans are, in practice, an expenditure control tool, not a cash management tool. The monthly cash plans are not unconstrained forecasts. The revenue component is an exception; it is based on an updated projection from the revenue administration. The expenditure data, however, are requests from UGBs for release of authority; they are not forecasts. The Treasury then decides how much to release depending on the expected adequacy of the cash reserves. This arrangement works well to manage the risk of a

cash shortfall at any time. It allows the Treasury to hold back or delay expenditure—in other words, to ration cash—if required. But this approach reduces the incentive for UGBs to plan their financial operations, and it risks creating unnecessary arrears or supply disruption.

40. The Treasury should adopt a more pro-active approach to managing the government’s aggregate liquidity to reduce the need to hold back or delay expenditure.

Restricting budget execution, i.e., cash rationing, should be the last course of action, not the first, once other measures to accommodate short-term mismatches in cash inflows and outflows have been exhausted. This would involve adjusting dynamically the volume of short-term financing that the government obtains through treasury bill issuance. Issuance would be augmented (beyond what was originally programmed) during periods when the cash balance would otherwise fall into deficit and, conversely, would be reduced during periods when the cash balance would otherwise be unduly excessive.

41. Under this more pro-active approach, cash flow forecasts become essential. They are necessary for devising strategies to smooth the cash flow profile. Given that it may not be possible in practice to manage fluctuations in the cash balance entirely through dynamic issuance of treasury bills, cash flow forecasting can contribute to making cash rationing less disruptive. By planning ahead, fiscal policy authorities will be able to make more informed decisions as to which spending—sector versus sector, and within each sector—to constrain and which to allow to proceed and thereby better protect overall fiscal priorities.

42. To be useful for informing decision-making, the cash flow forecasts prepared by the Treasury will need to have several characteristics, and their quality can be strengthened over time. The horizon is sufficiently long: at a minimum three months, ideally 12 months (or longer). The time step within the forecasts is short: daily (if necessary, weekly) out three months, and weekly beyond three months. The forecasts are updated frequently: preferably every week, and at least every month, and rolled forward even across fiscal years. Variances between forecasts and actual outturns are investigated to determine whether they are only temporary and will correct themselves in the periods ahead. If the variances arise from more permanent shocks, a more substantial policy response is required, e.g., reducing expenditure, raising revenue, or tolerating a higher fiscal deficit for the year. Box 5 discusses the process of building cash flow forecasts.

Box 5. Building Cash Flow Forecasts

The forecast period should extend ideally for at least 12 months, rolling into the next fiscal year when necessary. This relates to the time period within which offsetting action may usefully be taken—for example, by adjustment to the issuance volume of treasury bills. The design of an effective forecasting and monitoring capability is likely to be built around the following elements:

- (i) *A database of actual daily cash flows, as a means of identifying patterns for monitoring.* Actual cash flows should be closely tracked against profiles submitted by budget entities, and major divergences should be investigated as part of improving the forecasting processes.
- (ii) *Information flow from revenue and spending entities.* The preparation of short-term cash flow forecasts cannot be done effectively only at the center—that is, ignoring the knowledge of those budget entities that are closer to the interface between government and other sectors. Budget entities are best placed to supply information when actual flows are diverging from the budget.
- (iii) *A network of contacts, both voice and electronic, with the main revenue and spending entities, which would be used both to develop forecasts and monitor current flows.* The central cash manager should know precisely the timing of some major cash flows, such as debt service, for which data should be available directly. Some payments are likely to have a regular monthly pattern (such as payment of salaries or some transfers to individuals or to lower levels of government), and for others there may be an historical pattern. For example, major payments of some taxes may tend to repeat from year to year.

Cash flow forecasts are built up from a mixture of knowledge about specific flows, historical experience of patterns, and judgments about the impact of any recent changes in policy or application of administrative rules. There is often a difference between the compilation of “above the line” (i.e., revenue and expenditure) forecasts, which may fall to those monitoring budget execution or receipts, and those “below the line” (debt and other financial transactions), where the cash and debt managers take responsibility. In general, it has been found that econometric techniques are not useful for daily or monthly projections—their main role is to help forecast annual or quarterly aggregates, which are used to act as a constraint or quota. Instead, the patterns in cash flows can be examined by plotting individual time series on a year-over-year basis to reveal annual seasonality. Many government expenditure and receipt data, and movements of cash balances, may exhibit strong and predictable seasonal variations. Equally important actions are the following:

- (i) Identifying the key people at the working level in the selected revenue and spending entities, who will be able to supply the relevant information.
- (ii) Setting up formal requirements to ensure that profiles are supplied and updated.
- (iii) Backing the latter by informal arrangements, whereby the central cash manager is given early notice of any major changes, which may need to be communicated not only in advance of the day being studied but also on the day itself, to ensure that any offsetting action can be taken, whether by the cash manager or the central bank.

In an ideal world, efficient cash management systems enable daily forecasts of cash flows across the CUT, together with the monitoring of actual changes in close to real time. There is no simple technical short-cut that facilitates that. The focus should be on those sums that are large in size, most variable, and most unpredictable.

Source: Mission.

Recommendation 3. Pro-actively Manage the Cash Balance

Background

Despite government efforts to pool cash in the CUT, substantial liquidity continues to lie outside the CUT. Moreover, the Treasury does not manage the government's aggregate liquidity pro-actively to minimize the need to ration cash through holding back or delaying expenditure. The cash plans that are currently prepared are used to control budget execution, not to manage the cash balance to avoid the need for cash rationing.

Key measures

- Reduce the amount of government cash that sits in commercial banks and further improve the functioning of the CUT.
- Introduce cash flow forecasting to facilitate pro-active management of the aggregate cash balance through dynamic issuance of treasury bills, reducing the extent of recourse to cash rationing.

Institutional arrangements

The recommended actions involve no change to existing institutional arrangements in UGBs. The Treasury will need to strengthen its capacity to prepare high-frequency cash flow forecasts. A more dynamic approach to treasury bill issuance would need to be introduced in close coordination with the Bank of Mozambique.

Risks and mitigation measures

UGBs may resist shifting cash from commercial bank accounts to the CUT, but e-SISTAFE provides functionality to set up sub-accounts within the CUT so that there is no loss of visibility as to the balances for which they are responsible. Donors may resist allowing financing that they provide to be held within the CUT, and progress will depend on the government demonstrating credibility to ensure that those funds are not diverted from their intended purposes. There may, in practice, be limited scope to adopt a more dynamic approach to treasury bill issuance.

Schedule for implementation

Action 1	Finalize and circulate the <i>diploma ministerial</i> to secure information from commercial banks on government bank accounts and to regulate more closely the opening and operation of any new accounts	End-December 2017
Action 2	Introduce automatic end-of-day sweeping of balances in transit accounts and further minimize the use of advances	1st quarter 2018
Action 3	Continue to close accounts in commercial banks and transfer the balances to the CUT	Ongoing
Action 4	Begin forecasting the government's aggregate cash flows and cash balance over six to 12-month horizon and use the information to manage treasury bill issuance volumes in a dynamic manner	Starting in 1st quarter 2018

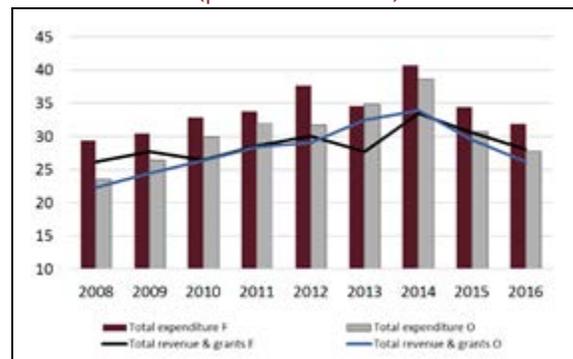
IV. Enhancing the Credibility of the Budget

43. **A credible budget is one that is executed as planned, and is an important requirement for effective public financial management.** Sound and predictable budget allocations to spending units are key to fiscal discipline and make it easier to control government expenditures at the point of budget preparation rather than later during budget execution. Arrears are usually a symptom of weaknesses in the public finance management practices, exacerbated by a poorly formulated budget. Unrealistic budget planning underpinned by biased macroeconomic projections can pose challenges for budget execution. Conversely, the challenges in budget execution can also present challenges for budget preparations in subsequent years. For example, overspends leading to arrears, re-allocations undermining agreements during budget negotiations, and delayed investments that require financing to meet contract obligations.

A. Mozambique Budget Facing Headwinds

44. **Since 2014, total revenue has been falling as a percent of GDP and each year government has cut total expenditure to contain the budget deficit.** Comparing data from the Budget Law to CGE, Figure 6 shows total expenditure and revenue (including grants) in the Budget compared to actuals in the CGE. The decline in total revenue was primarily driven by economic conditions and the disclosure of borrowing by public companies which led to a freeze in donor budget support. The changes in expenditure were achieved through in-year reallocations and managed through tight controls on the processing of cash payments.

Figure 6. Total Expenditure and Total Revenue
(percent of GDP)



Source: IMF Mission using data from Budget Law and the CGE.

Note: F – forecast in Budget Law, O – outturn/actual in the CGE

45. **In Mozambique, the annual budget is mainly prepared and executed according to an economic classification of expenditures.** It is presented and controlled in a detailed manner with many budget lines. The budget is compiled by aggregating submissions of budget users

formulated in economic classifications, and the same classifications are used for executing the budget.¹⁰

B. Enhancing the Accuracy of Budget Forecasts

46. The principal weakness of the annual budget is that it is not always adequately costed and not used as the primary tool for decisions regarding the allocation of resources.

This is in part due to technical issues, but reflects that decisions on expenditure prioritization are often pushed out to the budget year and resolved only through in-year budget reallocations.

47. Further, decisions on reductions in expenditures to meet estimated cash payment availability, do not seek to identify lower priority spending or the changes to expected levels of activity. As such, spending units have little incentive to change planned activities and they continue to spend according to their budget allocations, as evidenced by the accumulation of arrears despite total expenditure data showing cuts within the budget year (see Figure 6).

48. The result is there is little incentive at the budget preparation stage to ensure credibility of budget forecasts. The credibility of the budget covers two components: the accuracy of macro-fiscal forecasts and reliability of allocations to spending units.

49. Currently, budget documentation provides insufficient detail on the assumptions underlying macro-fiscal forecasts and there is no information provided on the reasons for deviations of actual to forecast. The realism of the assumptions underlying the macroeconomic and fiscal forecasts is critical for the realism of the budget. The MEF should seek to present accurately the assumptions in the budget documentation to ensure they are available for scrutiny by independent experts. Transparent reconciliation of the reasons behind changes to expenditure and revenue forecasts is also critical to demonstrating the government's compliance with the expenditure ceilings approved by Parliament.

50. While MEF is working to improve macroeconomic analysis, a weak process to determine the fiscal aggregates for the budget, coupled with the absence of debt sustainability analysis, provides insufficient discipline to limit the size of the budget deficit at the beginning of the budget process. Consequently, the budget preparation procedure is principally driven by the requests from the ministries for increased spending (i.e., the bottom-up approach). The MEF is taking steps to improve its macro-fiscal forecasting capacities and fiscal risk analysis (see Box 6).

¹⁰ The economic classifications currently in use do not classify capital and recurrent spending per GFSM 2014.

Box 6. Macro-Fiscal Forecasting and the Preparation of the MTFF

Macro-fiscal projections are prepared within the framework of the MTFF, the Cenário Fiscal de Médio Prazo (CFMP). The CFMP guides the planning and budgeting process and covers three-year forward estimates, as well as budgetary outturns for the two preceding years. Its objectives are drawn from the 5-year Plano Quinquenal do Governo (PQG) and are informed by the Plano Economico e Social (PES) that translate medium term priorities into annual budgets. The CFMP includes projections of revenue, expenditure, and financing by economic classification, and by program, at the central, provincial, and district levels, as well as transfers to the municipal level.

The process starts early 14 months in advance with the estimation of the resource envelope and the fiscal projections, the Mapa Fiscal. Revenue projections are prepared by the Autoridade Tributaria who is also in charge of collections. Based on macro forecasts prepared by the DEEF team, the Budget team (DNPO) determine expenditure allocations informed by fiscal policy objectives and finalize the Mapa Fiscal. These fiscal projections then inform the DEEF for the calculation of the indicative expenditure ceilings. By mid-December these ceilings are distributed to sectors and provinces to guide the preparation of their budget proposals. The CFMP process finalizes in May when estimates are approved by Cabinet. The Budget preparation process continues until September when the draft budget is finalized for discussion at Parliament.

The process of preparing the CFMP is not anchored on medium-term debt sustainability analysis that informs the estimation of the resource envelope. With a weaker fiscal position, this input has become crucial and fiscal sustainability should be considered earlier in the budget preparation process. Moreover, the link between policy priorities and expenditure allocations needs to strengthen. Significant reallocation of expenditures during the budget discussions that follow the CFMP, between May and September, are undermining the policy objectives set forth at the initial budget preparation stage.

Mozambique aims to introduce fiscal risk analysis in the budget preparation process. In 2016, the *Gabinete de Gestão de Risco* (GGR) was established to strengthen the identification, monitoring and management of fiscal risks. An IMF resident advisor is currently supporting the unit in the preparation of the 2019 Fiscal Risk Statement to better inform macro-fiscal forecasts. This technical assistance will build capacity for macro-fiscal forecasting across the MEF and is a step towards strengthening the CFMP and the credibility of the budget.

Source: Mission.

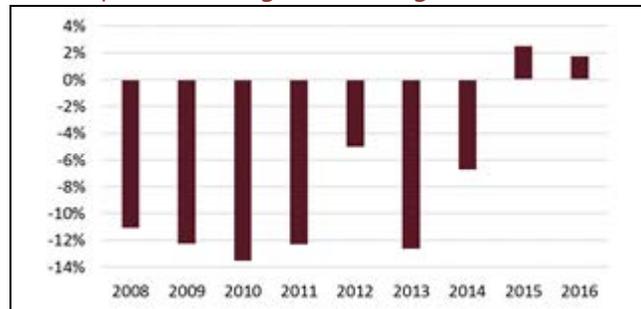
51. Uncertainty about donor funding further weakens the budget preparation process.

With the withdraw by donors of direct budget support, most donor funding is for direct project finance. In cases where the anticipated amount of project funding does not materialize or arrives late the government is forced to make sizeable adjustments to the state budget which was particularly a concern in 2016. This uncertainty is magnified over the medium-term, and reinforces the lack of credibility. The government should continue to insist on a medium-term support framework with the donors that ensures timely commitments and disbursement.

52. In previous years, cautious revenue assumptions contributed to the lack of credibility of the budget, however while uncertainties remain concerning donor grants, the

accuracy of taxation revenue forecasts is improving. As shown in Figure 7, from 2012 to 2014, the estimates of taxation revenue in the Budget Law significantly underestimated the outcome of collections as reported in the CGE. However, in the two most recent years the deviation of forecasted taxation revenue to actual taxation revenue has improved. For example, in 2013 the Budget Law included taxation revenue of 95.5 billion Meticaís, but 107.5 billion was collected resulting in a 12.6 percent deviation. However, the deviation in 2016 was only 1.7 percent.

Figure 7. Change in Taxation Revenue from Budget Law to Financial Outcome
(percent change from Budget estimate)



Source: Mission.

Note: a positive change means Budget was greater than actual, a negative change means Budget was less than actual

C. Improving Budget Allocations

53. Budget allocations to spending units are not reliable, undermining the role of Parliamentary approval in the Budget process. As flagged in the 2010 and 2015 PEFA assessments¹¹, large deviations on Budget in the expenditure composition are a long-standing pattern. The main decisions on expenditure prioritization are often resolved only through in-year budget reallocations, this means the information presented to Parliament through the Budget Law are not credible estimates of the allocation of resources and therefore the Budget does not constitute a dependable framework for the planned allocation and efficient use of Mozambique's resources.

54. While accuracy of taxation revenue forecasts is improving, the accuracy of total expenditure forecasts is worsening. Figure 8 shows that in 2014, total expenditure was overestimated by 5.0 percent, this deviation increased to 13 percent in 2016. This overestimation was the result of under-execution of capital expenditure primarily driven by cancelled or delayed

¹¹ Refer to the report "Mozambique PEFA assessment of public financial management, 2015" by AECOM International Development Europe and CESO Consultants, funded by the EU. In 2007 -09 the variation was over 15 percent which resulted in a "D" rating. The three-year period 2012-14 presented an even greater deterioration.

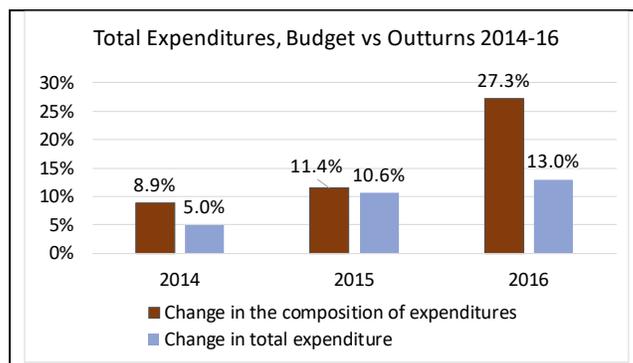
payments from donors, but also from significant cuts to expenditure within the budget year to reduce the size of the deficit.

55. The reductions and reallocations of expenditure within the budget year are made for cash rationing purposes, with little discussion of commensurate changes to policy priorities or the impact on the provision of services. Allocations to spending units through Budget Law should provide a basis for planning activities throughout the budget year and an expectation of the level of service delivery. Reducing spending allocations in the absence of decisions regarding the re-prioritization of government services, provides no guidance to spending units on how spending cuts are to be achieved.

56. Expenditure reduction plans are not effective when they are made to spending allocations without accompanying changes in the underlying expenditure policies. Just changing the estimates makes the budget provision less than objective; the likely consequence is overspending against appropriation and/or the emergence of payment arrears

57. The composition of expenditure changed significantly, which would further compound the challenges for spending units to deliver on planned activities. As shown in Figure 8, the composition of expenditure by economic classification changed by 8.9 percent in 2014, whereas it changed by 27.3 percent in 2016 - when funds for good & services were cut to fund the wage bill and interest payments with outturns higher than expected. The impact on budget credibility here is through the reallocation of current expenditures. This is a measurement of how the allocation of spending by economic classification changed from the Parliament-approved Budget Law to the outcome as stated in the end of year financial statement (CGE).¹² The reallocation between functional classification was not as large, at 8.1 percent change in composition in 2016.

Figure 8. Change in Expenditure and the Composition of Expenditure
(percent change from Budget estimate)



Source: IMF mission based on data from the Budget Law and the CGE.

Note: a positive change means Budget was greater than actual

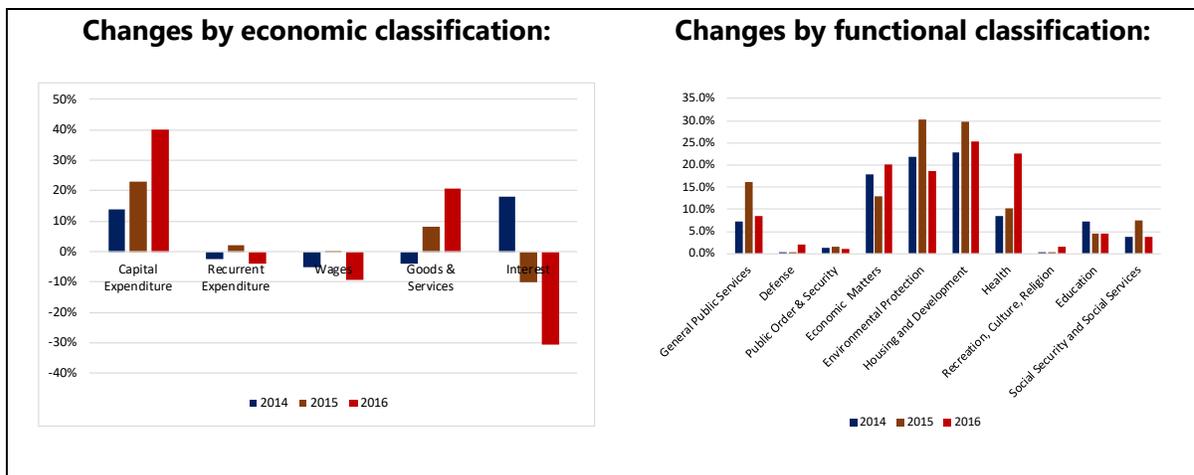
¹² These calculations are consistent with Performance Indicator 2(i) of the Public Expenditure and Financial Accountability Assessment (PEFA) Framework.

58. Unrealistic estimates of expenditure composition may also be contributing to the accumulation of arrears. While a significant portion of the change in expenditure is a result of under-execution of capital expenditure, the changes in composition of current expenditure reveal that there are weaknesses in the execution process as a result of unrealistic budget estimates. Figure 9 shows the changes in expenditure by economic and functional classification for the estimates contained in the Budget Law compared to the actuals contained in the CGE.

59. Changes in the composition of economic classification are driven by delayed or cancelled funding by donors for investment projects. That said, in 2016 the Budget Law underestimated expenditure on interest payments and on wages. Wages are an expense that should be easy to estimate (number of employees at each wage scale times by the wage rate, including expected growth), the significant change from Budget reflects the challenges associated with controlling the size of the civil service wage bill.¹³

60. Changes in the composition of functional classification reflect the uncertainty of funding by donors for investment projects. Each year the Budget Law overestimates the expenditure in four key functions: economic matters, environmental protection, housing and development and health. Each being large areas for execution of capital expenditure.

Figure 9. Change in Composition of Expenditure by classification
(percent change from Budget Law to CGE)



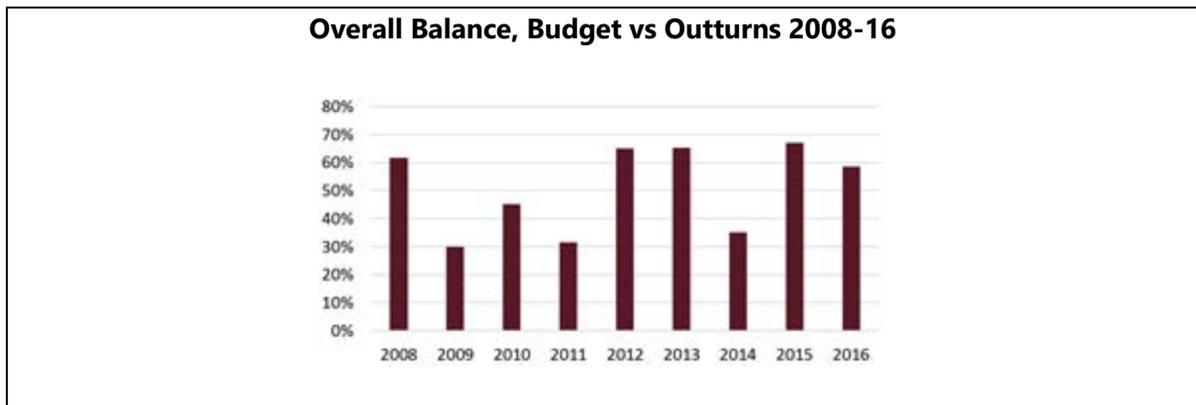
Source: IMF mission based on data contained in the Budget Law and the CGE.

Note: a positive change means Budget was greater than actual, a negative change means Budget was less than actual

¹³ IMF Technical Assistance Report “Republic of Mozambique: Public Finance Management” December 2016, examined this issue in further detail and made recommendations on managing the civil service wage bill.

61. While there have been significant reallocations of expenditure within the budget year, there have also been efforts to reduce the size of the deficit through budget execution control. Figure 10 shows the change in the budget balance from the estimates contained in the Budget Law, to the actuals contained in the CGE. While first the efforts of the MEF to reduce the size of the deficit must be acknowledge, the large deviations from Budget to CGE raise concerns of the credibility of budget estimates being presented to Parliament for legislative approval.

Figure 10. Change in Budget Balance
(percent change from Budget Law to CGE)



Source: IMF mission based on data contained in the Budget Law and the CGE.

Note: a positive change means Budget was greater than actual, in the figure above this means the Budget forecasted a larger deficit than the actual outcome.

62. Budget credibility can be enhanced by improving the realism of expenditure aggregates at the MTFF stage of budget preparation. The development of fiscal aggregates through the MTFF will be improved by the focus on improving macro-fiscal forecasting capacities. For the development of the total expenditure ceiling, this can be further improved through a process of reconciliation of top-down and bottom-up approaches (see Box 7).

Box 7. Budget Preparation Based on Reconciling Top-Down and Bottom-Up Approaches

The MTFF should follow the following presentation: i) macroeconomic and fiscal projections; ii) updates to baseline expenditure; iii) the targeted amount of fiscal space, i.e. the resources available for new policy and how these should be allocated across sectors; iv) other issues for budget preparation.

Updating baseline estimates in an objective manner will help to focus budget preparation discussions on prioritization of spending. Baseline estimates are the costs for future budget years based on no policy changes (no savings, no new policies) and are developed and agreed by staff between MEF and ministries. As updating baselines is technical in nature, by applying macro-economic indicators (e.g., unemployment, inflation), other parameters (e.g., beneficiaries for social assistance programs), commitments for contracts for goods and services and capital projects, the parameters should be made explicit and agreed. At this stage, MEF should also identify in the baselines the plan for clearing the stock of arrears. While there might be some disagreement, this discussion should be built on facts and not mixed with budget negotiations on new spending.

The targeted amount of fiscal space should be determined through a reconciliation of the updated baseline estimates and the targeted expenditure ceiling that would meet macro-fiscal objectives. Fiscal space can be positive or negative, the MTFF should then propose how the fiscal space should be allocated across sectors, whether through availability of finance for new spending proposals (if the fiscal space is positive); or through spending cuts that target low-priority and inefficient spending (if the fiscal space is negative).

Source: Mission.

D. Reporting on Budget Credibility

63. Current fiscal reporting compounds the challenges for budget credibility as it does not capture the accumulation of arrears. As identified in previous sections, the process of budget execution does not permit the monitoring or prevention of arrears. As fiscal reporting is the output of execution processes, the information provided in the CGE provides incomplete information on the state of the government's finances and therefore, does not provide accurate comparison to budget estimates.

64. The availability of fiscal information has improved, but more needs to be done to strengthen budget documentation and fiscal reporting. As the SISTAFE remains focused on ensuring tight cash control, and there is no requirement to record all commitments and therefore fiscal information is not capturing the accumulation of arrears. This impacts on the credibility of budget year forecasts, but also on the ability of future budgets to be credible if arrears and multi-year commitments are not informing spending allocation decisions through the budget preparation process.

Recommendation 4. Enhance Budget Credibility

Background:

Weaknesses in the preparation of the annual budget reflects that decisions on expenditure prioritization are often pushed out to the budget year and resolved only through in-year budget reallocations. This has meant significant reductions and reallocations of expenditure within the year without accompanying changes in the underlying expenditure policies.

Key measures:

- Improve budget credibility by continuing to improve the realism of revenue estimates (including donor funding), and of expenditure estimates both at the aggregate level (i.e. total recurrent and capital expenditure) and at the composition level (i.e. allocations by classification).
- Publish a reconciliation of changes (and their reasons) from the Budget Law to CGE, and analyze the largest deviations in allocations (both economic and functional classification).
- Identify the implications of deviation for the budget to inform the preparation of baseline estimates in the MTFF.

Institutional arrangements:

Enhancing budget credibility requires stronger linkages between the MEF directorates with responsibility for macro-fiscal forecasting, the Directorate for Budget Planning and the Directorate of Treasury. No additional institutional arrangements are required, just strengthening of existing processes:

- Fiscal reporting should identify and analyze deviations from Budget to outturn.
- The preparation of expenditure aggregates at the MTFF stage should be determined through a reconciliation of top-down and bottom-up approaches (see Box 7)

Risks and mitigation measures:

This recommendation is to improve existing processes, in order to not create additional systems or processes, the efforts to improve budget credibility must be integrated into the budget cycle.

Schedule for implementation:

Action 1	Analyze and publish the deviations from Budget Law to CGE for macroeconomic indicators, fiscal aggregates, and composition of expenditure. Further identify the major causes for deviations and their expected impacts for future budgets.	For inclusion in the 2017 CGE and in the 2019 MTFF
Action 2	Determine expenditure aggregates, through updating the baseline estimates and determining the allocation of fiscal space. Include identification of the stock of, and plan to clear arrears.	For preparation of the 2019 MTFF
Action 3	Continue to insist on a medium-term support framework with donors to ensure timely commitments and disbursements of project finance.	Ongoing

V. PROFESSIONALIZING SPENDING UNITS

65. Scattered spending units operate expenses across the country. There are more than 1,600 UGBs across the country, including 200 UGBs at the central government level, 650 at the provincial level, and 770 at the district level. At the central level, the bulk of budget execution is concentrated in a few spending units that collectively execute 90 percent of the central agencies' budgets. This extreme distribution is less pronounced at the provincial level (see Table 4).

66. Such a large network composed with many small-sized units needs to be streamlined for the sake of efficiency and capacity building. Small provincial UGBs frequently over- or under-execute their budget. The sheer number of UGBs hampers sound allocation of funds, consolidation of fiscal reports, and budget monitoring. Staff capacity needs strengthening to reach standards of excellence and effectiveness and accountability in budget management.

Table 4. Main Indicators for UGBs Across the Country

Province	2016	2016	# of UGBs	Overall Budget Credibility
	Budget	Outturn		
	<i>(as a percent of total)</i>		<i>(as a deviation between outturn and budget)</i>	
Central	82.84%	85.17%	13.17%	3%
Niassa	3.77%	4.81%	8.56%	27%
Nampula	2.40%	1.62%	12.03%	32%
Zambezia	2.11%	1.42%	9.99%	33%
Gaza	1.55%	1.13%	8.32%	27%
Tete	1.34%	0.91%	8.26%	32%
Sofala	1.27%	1.00%	8.02%	21%
Cabo Delgado	1.19%	0.77%	7.66%	35%
Inhambane	1.08%	0.80%	7.96%	26%
Maputo Provincia	1.01%	1.03%	6.40%	2%
Manica	0.87%	0.73%	7.24%	16%
Maputo Cidade	0.57%	0.61%	2.39%	7%

Source: Mission

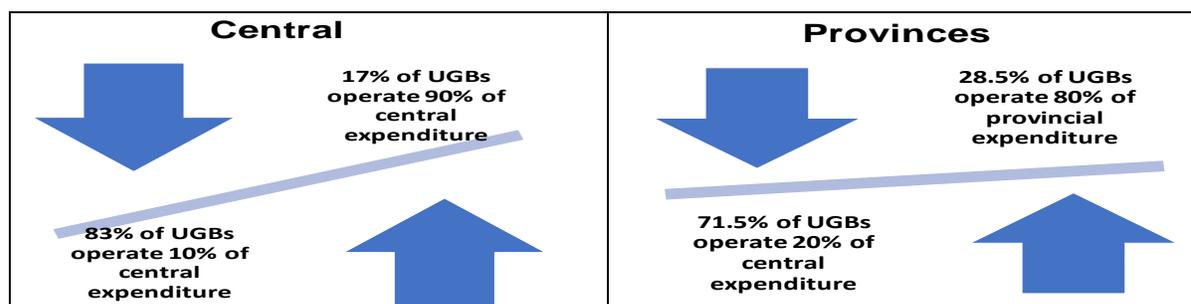
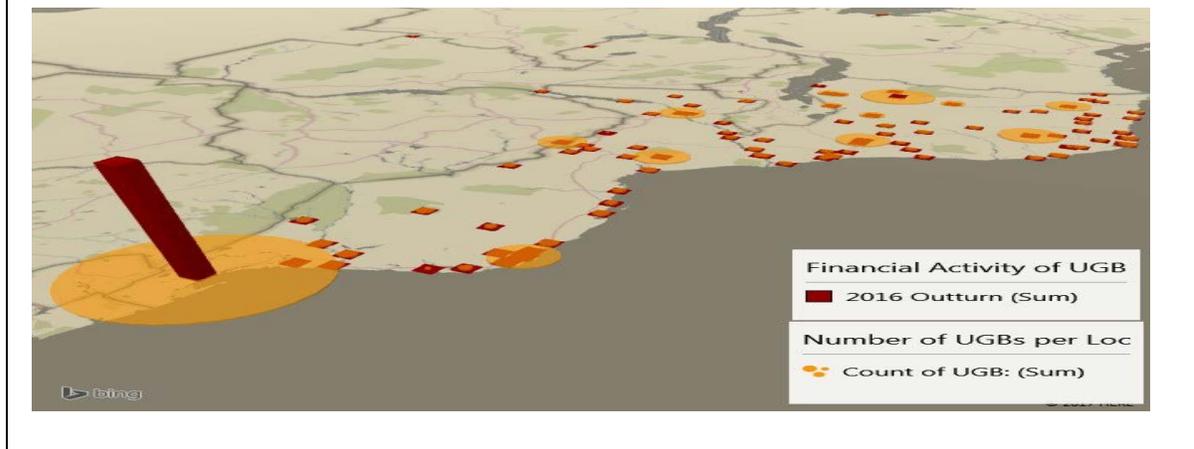


Figure 11. UGBs Distribution Across the Country



Source: SISTAFE database, staff calculations.

67. Streamlining the UGB network can bring manifold outcomes. There are at least four main outcomes to expect from a streamlined network:

- **More accountable and proficient staff in UGBs:** Capacity development and accountability frameworks are easier to implement in units with a critical mass of staff (e.g., 30 or more).
- **More timely and accurate fiscal reports:** Consolidating more than 1,600 quarterly reports, some of which are sent manually, is a cumbersome and time-consuming process, hence the need to group and connect as many UGBs as possible.
- **More accurate budget allotments:** Appropriating budget to so many units and subsequently reallocating them within the year to meet fiscal targets is a difficult exercise.
- **Improved financial programming:** Fewer UGBs operating significant budgets will ease a bottom-up approach for the Treasury to anticipate financing needs in cash plans.

68. The approach should be pragmatic and does not involve drastic collapse of UGBs.

The mission recommends grouping small UGBs into larger-sized platforms for budget execution. This approach should be implemented case by case: shutting down inexistent UGBs without financial activities; grouping dependent UGBs under the authority of the same department, province, or district; assigning small UGBs to technical platforms that will implement technical steps of the expenditure chain while leaving the responsibility for signing contracts and receiving goods to the UGBs' managers; and redeploying Treasury officials to best fit UGBs' needs locally and centrally.

Recommendation 5. Streamline Spending Units Network

Background:

The sheer number of UGBs hampers the allocation of funds and budget consolidation. The MEF reallocates funds during the year, depending on cash availability. Consolidation of UGBs budgetary and financial transactions is uneasy. UGBs with low financial activity hardly reach best standards, skills, and economies of scale for budget management

Key measures

Gradually regroup UGBs at center, province and district levels to divide their number by four with the following indicative targets: 31 at central level (i.e. ministries and constitutional institutions); 240 at provincial level (i.e., governors, assemblies, regional directions, hospitals, and townships), and 150 at district level (by grouping district UGBs in district secretariats).

Institutional arrangements

These key measures do not affect Mozambique's decentralization framework. All UGBs to group are reporting to central government agencies. The recommended approach is:

- Ministries: (i) first group small-budget UGBs and operate expenses on their behalf; (ii) then constitute central spending centers for larger budget UGBs; and (iii) eventually operate all central expenditure related to the ministry's budget.
- Provinces: (i) group small-budget UGBs not related to central government ministries under governors' leadership; (ii) merge all UGBs related to regional directions; and (iii) keep hospitals and large budget units as UGBs.
- Districts: Group all UGBs in district secretariats.

Risks and mitigation measures

One may expect resistance from small UGBs in fear that their budget could suffer haircuts or administrative delays in expenditure from the merger. The MEF should make clear that funds will be more easily funneled from the CUT to the UGBs and that larger and more professional UGBs will be more efficient. Central ministries should make clear that deconcentrated units will not suffer budget constraints beyond normal business. A communication campaign is needed.

Schedule for implementation

Phasing in:	Define targets, timelines and action plan	by March 2018 at latest
Action 1	On a voluntary basis group small budget UGBs	by June 2018
Action 2	Prepare large mergers simultaneous with budget preparation meetings	by September 2018
Action 3	Start FY 2019 under the new budget management framework	by January 2019
Action 4	Complete remaining planned mergers	by September 2019
Action 5	Start FY 2020 under the new framework	by January 2020
Action 6	General Inspectorate of Finance reports on experience	by June 2020

Annex 1. Seminar on Budget Control (Main Outcomes)

The mission organized two half-day seminars for the authorities to discuss best practices in budget management and ways to resolve and prevent arrears in Mozambique. The seminar brought together senior and technical government officials, from the MEF and other sector ministries and entities involved in the budget process, including the external audit body.

The seminar was organized into two sessions:

- **Day 1** included five short presentations by IMF team, followed by a rich discussion. The topics discussed included: an introduction mapping the problem of arrears; lessons from Angola on the management of arrears; budget credibility; expenditure process; and the CUT and cash management.
- **Day 2** consisted of two working groups that discussed detailed recommendations for strengthening the expenditure chain and cash management in Mozambique. The group identified ways to ensure better control over the three main phases of the expenditure chain (i.e., commitment, verification, and payment). It also addressed the issue of cash and debt planning, as well as banking arrangements, to make the best of the existing treasury single account.

Summary conclusions and recommendations from the working groups

The two groups came up with useful conclusions and recommendations, which were presented and discussed in a plenary session.

The conclusions and recommendations resulting from the working session were used in finalizing this technical assistance report. They were also discussed with the Minister, the Vice Minister, and the Permanent Secretary in the wrap-up meeting of the mission.

Group 1. Expenditure chain

- The main challenge is to change users' practices, so the three phases of the expenditure chain can be restored in e-SISTAFE when they are done. This would require extensive training at various levels (e.g., spending units, supervisory bodies, and internal control) and clear manual of procedures.
- Compliance over the execution process in e-SISTAFE should be enforced with support from the internal control (IGF).
- The 'commitment certificate' issued by e-SISTAFE should start being used to provide suppliers with future proof of payment. Suppliers should be trained to stop requesting payments prior to the delivery of goods and services, and to only deliver them after commitments are made in the system.
- Cash management tools should be put in place, so commitment ceilings can be provided in a quarterly basis. This would be very useful to strengthening the communication between spending units and the MEF. While the sectors would have some predictability to expend their budget, this would be done within fiscal sustainable limits. Moreover, e-SISTAFE would capture data on real budget execution which would then facilitate the decision-making process.
- Some improvements should be done to the infrastructure which supports e-SISTAFE to ensure that spending units can have regular access from their local offices. When access to the system is temporary lost, the agents involved in the budget execution process must travel to another UGE to record their transactions in e-SISTAFE. For practical reasons, this might end up in all three expenditure phases being recorded simultaneously.

Group 2. Cash management

- The CUT could be strengthened by reducing Treasury accounts in commercial banks (e.g., those created by spending units or external financed projects), and reinforcing existing procedures to ensure that surplus balances are immediately transferred to the CUT (e.g., revenue accounts).
- Cash management function (*programação financeira*) should be developed with improved and regularly updated forecasts of cash flows. This would help to ensure that the budget can be executed predictably, without having to ration cash or accumulate arrears.
- The monthly and weekly mechanism used for cash rationing (*requisição de necessidades financeiras*) should be complemented upstream with annual, quarterly, and monthly cash management plans (improving the existing *orçamento de tesoureria* and *planos de tesoureria*).

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