

**Republic of Mozambique: Report on the Observance of Standards and Codes—  
Fiscal Transparency Module—Update**

This Update to the Report on the Observance of Standards and Codes on Fiscal Transparency Module for the **Republic of Mozambique** was prepared by a staff team of the International Monetary Fund as background documentation for the periodic consultation with the member country. It is based on the information available at the time it was completed on **June 13, 2002**. The views expressed in this document are those of the staff team and do not necessarily reflect the views of the government of the **Republic of Mozambique** or the Executive Board of the IMF.

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INTERNATIONAL MONETARY FUND

REPUBLIC OF MOZAMBIQUE

Update to the Report on the Observance of Standards and Codes (ROSC)  
Fiscal Transparency Module

Prepared by the African Department on the Basis of Information  
Provided by the Mozambican Authorities

June 13, 2002

1. This note updates developments in fiscal transparency and reviews the status of recommendations in the fiscal transparency ROSC for Mozambique issued in February 2001. For a description of institutions and practices and a list of recommendations, readers should refer to the original report, which is available on the IMF external website.<sup>1</sup>
2. The fiscal ROSC concluded that Mozambique was improving its fiscal transparency in a number of areas, with the authorities aware of the need for further improvements. In addition to noting recent advances in fiscal transparency, the staff suggested several priority areas for further improvement, which were generally agreed with the authorities. The priority recommendations concerned disclosing extrabudgetary activities of central and provincial budgets; introducing a comprehensive legal framework for fiscal management; upgrading budget documents and reports on budget execution; and reducing the lag in producing the year-end audited fiscal accounts to no more than 12 months.
3. Several measures that respond to these recommendations are now being implemented. The Ministry of Planning and Finance (MPF) has already started gathering information and establishing procedures to include self-generated revenues of ministries and government agencies and their related expenditures in the budget, beginning with the 2003 budget. Public availability of fiscal information has been enhanced by the publication of quarterly budget execution reports. Budget preparation and execution have been improved through the use of a more detailed functional classification of expenditure. The preparation and approval of the PRSP in 2001 advanced the use of medium-term budgeting by prioritizing expenditure in social sectors and establishing annual limits for expenditures that are consistent with the medium-term macroeconomic scenario. While the government is working toward the inclusion of other extrabudgetary activities in the budget, no deadline has been established for the conclusion of this process. The speed with which this can be achieved will depend in part on the provision of information on donor activities that are currently outside the budget.

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<sup>1</sup> The report is available at <http://www.imf.org/external/np/rosc/moz/fiscal.htm>.

In addition, some special funds (the Agrarian Fund, the Roads Maintenance Fund, and the Social Security Institute) have yet to be incorporated into budgetary procedures.

4. A new public financial management law was approved by parliament in October 2001 and promulgated in February 2002. The new law, No. 9/2002, creates the basis for greater transparency, efficiency, and accountability in all stages of the budgetary process and thus spans many of the fiscal ROSC recommendations. The new law eliminates the complementary three-month period during which expenditure can be carried over to the next fiscal year and requires the production of audited fiscal accounts with a lag of one year. It also establishes a government financial management system (SISTAFE), intended to create an integrated financial information system encompassing all stages of the federal budget process. As such, the SISTAFE would mark a fundamental change from an archaic manual system—of limited scope and of little help for decision making—to a modern financial management system that, through the timely production of more comprehensive and analytically useful data, can support effective decision making and help to improve the transparency of government activities. A technical coordination unit, UTRAFE, was set up in the MPF to coordinate all ongoing reforms related to the implementation of the SISTAFE. A recent mission from the IMF's Fiscal Affairs Department developed an action plan for implementing the SISTAFE, and donors have indicated their desire to support this process with technical assistance.

5. In addition to its main recommendations, the original ROSC highlighted several other areas in which reforms were needed. However, reflecting the initial focus on strengthening budgetary procedures, actions have yet to be taken in these areas, which included the following: clarifying the expenditure responsibilities of the different tiers of governments; removing or severely limiting the legal power of municipalities to borrow; prohibiting the central bank by law from financing budget deficits or undertaking quasi-fiscal operations; setting limits on government debt; and reconciling fiscal and monetary data. The report also noted a need to improve compliance with procurement and bidding rules for government purchases of goods and services. In this area, the authorities have been working with the World Bank on a Country Procurement Assessment Review to provide an analysis of current procurement policies, organization, and procedures and develop an action plan for institutional improvements.

6. Mozambique is currently participating in a data ROSC.