

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

This Report on the Observance of Standards and Codes on Fiscal Transparency 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 April 29, 2008. 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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REPUBLIC OF MOZAMBIQUE

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

Prepared by the Fiscal Affairs Department

Approved by Benedicte Vibe Christensen and Teresa Ter-Minassian

April 29, 2008

EXECUTIVE SUMMARY

This report provides a reassessment of fiscal transparency practices in Mozambique in relation to the requirements of the IMF *Code of Good Practices on Fiscal Transparency* based on discussions with the authorities and other organizations and sources of information. The reassessment is conducted against the results of the Report on the Observance of Standards and Codes (ROSC) on fiscal transparency carried out in 2001 and related updates, the PEFA Assessment, and FAD technical assistance missions. The IMF Manual on Fiscal Transparency (<http://www.imf.org/external/np/fad/trans/manual/>) should be consulted for further explanation of the terms and concepts discussed in this report.

Mozambique has made significant progress on fiscal transparency over the last few years, as a result of a wide range of relevant legislative reforms in line with international good practices. These include a new legal framework for the tax system and the implementation of a modern and comprehensive public financial management system (SISTAFE Law); new legislation on public procurement and the civil service; simplification of bureaucratic procedures, and the introduction of anti-corruption legislation. The reforms have led to the introduction of new tools, such as the SISTAFE Information Technology System (the e-SISTAFE), an electronic Treasury Single Account (the e-CUT), and an e-government portal. The reforms have also led to the creation of new institutional arrangements including the Mozambican Tax Authority, the Ministry of Public Function (*Ministério da Função Pública*) and the Poverty Observatory (recently renamed Development Observatory). These reforms have strengthened Mozambique's fiscal management, and in particular, led to the emergence of a relatively well-structured planning and budgeting mechanism and budget reporting system and a well-defined coordination mechanism of donor activities.

Nonetheless, further improvements are needed to bring Mozambique's practices in line with the IMF *Code of Good Practices on Fiscal Transparency*. The main shortcomings include: the ambiguous nature of the regulatory and legal framework governing State public enterprises and autonomous institutions, particularly as regards their relations with the treasury; overlapping responsibilities between different levels of government and lack of transparency of intergovernmental transfers; lack of an agreement between the Bank of Mozambique (BM) and the treasury on the management of the e-CUT and financing costs of the monetary policy; the still limited coverage of the budget and incomplete use of the e-SISTAFE, which impairs the quality of budget reporting; lack of fully effective internal and external controls; insufficient human and technical resources; and scant use of the Ministry of Finance (MF) website in particular, and the Internet in general, to disseminate fiscal information.

The report's main recommendations include: (i) strengthening the legal framework on autonomous State autonomous institutions and public enterprises; (ii) clarifying the responsibilities between levels of government and introducing transparent and rule-based intergovernmental transfers; (iii) expanding the use of the e-SISTAFE, including to the districts with largest socio-economic impact, and the scope of operations channeled through the e-CUT; (iv) developing additional e-SISTAFE modules on revenue collection, payroll, and asset management; (v) broadening the coverage of the budget, enhancing budget execution reports, and strengthening accounting processes; (vi) making transactions related to the resource sector and public-private partnerships more transparent; and (vii) strengthening the Inspectorate General of Finance and the Administrative Tribunal, including by encouraging collaboration between them. The report lastly recommends publishing information more widely, on a timely way, through low-cost electronic media such as the Internet.

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ACRONYMS

AR	<i>Assembléia da República</i> [Assembly of the Republic]
ATM	<i>Autoridade Tributária de Moçambique</i> [Mozambique Tax Authority]
BM	<i>Banco de Moçambique</i> [Bank of Mozambique]
CFM	<i>Portos e Caminhos de Ferro de Moçambique</i> [National Railway and Harbor Company]
CFMP	<i>Cenário Fiscal de Medio Prazo</i> [Medium-Term Fiscal Framework]
CGE	<i>Conta Geral do Estado</i> [Government General Account]
CIRE	<i>Comissão Interministerial de Reestruturação Empresarial</i> [Interministerial Commission for Business Restructuring]
CMG	<i>Companhia Moçambicana de Gasoducto</i> [Mozambique Company for the Gas Pipeline]
CMH	<i>Companhia Moçambicana de Hidrocarbonetos</i> [Mozambique Company of Hydrocarbons]
CUT	<i>Conta Única do Tesouro</i> [Treasury Single Account]
DNCP	<i>Direcção Nacional de Contabilidade Publica</i> [National Directorate of Public Accounting]
DNO	<i>Direcção Nacional do Orçamento</i> [National Directorate of the Budget]
DNP	<i>Direcção Nacional de Planeamento</i> [National Directorate of Planning]
DNT	<i>Direcção Nacional do Tesouro</i> [National Directorate of the Treasury]
ENH	<i>Empresa Nacional de Hidrocarbonetos</i> [National Hydrocarbons Enterprise]
e-SISTAFE	<i>Sistema Informático do SISTAFE</i> [SISTAFE Information Technology System]
FCA	<i>Fundo de Compensação Autárquica</i> [Local Authority Compensation Fund]
GCCC	<i>Gabinete Central de Combate a Corrupção</i> [Central Anti-Corruption Office]
GFSM	Government Finance Statistics Manual
HCB	<i>Hidroeléctrica Cahora Bassa</i> [Cahora Bassa Hydroelectric Power Plant]
IGAE	<i>Inspecção-Geral Administrativa do Estado</i> [State Administrative General Inspectorate]
IGEPE	<i>Instituto de Gestão das Participações do Estado</i> [State Shareholdings Management Institute]
IGF	<i>Inspecção-Geral de Finanças</i> [General Inspectorate of Finance]
IMF	International Monetary Fund
INE	<i>Instituto Nacional de Estatística</i> [National Institute of Statistics]
INSS	<i>Instituto Nacional do Seguro Social</i> [National Social Security Institute]
LGT	<i>Lei Geral Tributária</i> [General Tax Law]
MF	Ministry of Finance
MPD	Ministry of Planning and Development
MPF	Ministry of Planning and Finance
NUIT	<i>Número Único de Identificação Tributária</i> [Single Tax Identification Number]
OE	<i>Orçamento do Estado</i> [State budget]
PARPA	<i>Plano de Acção para Redução da Pobreza Absoluta</i> [National Poverty Reduction Strategy]
PBCP	<i>Plano Básico de Contabilidade Pública</i> [Basic Chart of Public Accounts]
PES	<i>Plano Económico e Social</i> [Economic and Social Plan]

PQG	<i>Plano Quinquenal do Governo</i> [Government Five-Year Plan]
PPP	Associações Publica-Privadas [Public-Private Partnerships}
REOE	<i>Relatório de Execução do Orçamento do Estado</i> [State Budget Execution Report]
ROSC	Report on the Observance of Standards and Codes
SISTAFE	<i>Sistema de Administração Financeira do Estado</i> [State Financial Management System]
TA	<i>Tribunal Administrativo</i> [Administrative Tribunal]
UTRAFE	<i>Unidade Técnica da Administração Financeira do Estado</i> [Technical Unit for State Financial Management]

I. INTRODUCTION

1. **This report provides a reassessment of fiscal transparency practices in Mozambique.** The reassessment is conducted against the results of the Report on the Observance of Standards and Codes (ROSC) on fiscal transparency carried out in 2001, which identified serious transparency shortcomings, and the recently conducted updates of the ROSC, PEFA Assessment, and FAD technical assistance missions, which have indicated some progress on improving fiscal transparency. However, the intense pace of fiscal reforms implemented over the last few years calls for conducting a complete reassessment of Mozambique's compliance with the requirements of the IMF *Code of Good Practices of Fiscal Transparency*.

II. DETAILED DESCRIPTION OF PRACTICES¹

A. Clarity of Roles and Responsibilities

Definition of Government Activities

2. **The budget documents and legislation only refer to the central government, but according to a definition that is not fully in compliance with the IMF's Government Finance Statistics Manual (GFSM).** 1.1.1

Neither the State budget (*Orçamento do Estado*, OE) proposal nor the budget law itself records the consolidated fiscal position of the general government. According to the Law on the State Financial Management System (the SISTAFE Law), the OE only covers a part of the central government's entities, that is: (i) the sovereign bodies, the judiciary, and 25 ministries; (ii) the State's administrative bodies deconcentrated at the local level (i.e., Mozambique's 11 provinces and 131² districts); and (iii) the autonomous State institutions (institutes, centers, funds, and similar bodies) which, despite legally being autonomous in respect of administrative, financial, and asset management matters, are not in a position to enjoy that autonomy because their own revenues are unable to finance at least two-thirds of their expenses.³ Therefore, except for the transfers made to them, the OE does not include the operations of the rest of the public entities that also should be considered part of the central

¹ The mission composition included Teresa Dabán (head, FAD) and Helio Tollini, Dalmo Palmeira, and Roberta Pereira (FAD consultants). The mission met with the Vice-Minister of Finance, the Director of UTRAFE, the National Director of the Treasury, the National Director of the Budget, the Director of the Research Department, the Mozambique Tax Authority, the General Inspector of Finance, the Deputy Director of the Public Accounting National Directorate, and the staff of the Bank of Mozambique. The mission also met with the Planning and Budget Committee of the Assembly of the Republic, the Administrative Tribunal, the Deputy Director of the National Directorate of Planning in the MPD, and the Deputy Directors of the Financial Management Departments of the Ministries of Public Works and Health. The mission also met with the donor community in Maputo and representatives of the private sector and civil society.

² Although there are laws creating 131 districts, three of them overlap geographically with local authorities (*autarquias*). Accordingly, some consolidation statistics may refer to just 128 districts.

³ SISTAFE Law, Article 6.

government. The central government entities excluded from the OE are those autonomous State institutions that enjoy administrative, financial, and asset management autonomy and which undertake noncommercial activities (e.g., the National Social Security Institute (INSS)). As regards local governments, the OE only includes the transfers made to the 33 "*autarquias*" (municipalities), which are also autonomous in respect of administrative, financial, and asset management matters. The OE also includes the transfers made to public enterprises. The SISTAFE Law requires that the budgets of all autonomous State institutions, local governments, and public enterprises be included in the OE proposal sent to the Assembly of the Republic (AR), as an annex for information purposes. However, this requirement is only partially complied with.⁴

Box 1. General Government in Mozambique

The general government in Mozambique includes:

Central government units included in the OE

1. Sovereign bodies and the judiciary system (Office of the President of the Republic, Cabinet of the Prime Minister, AR, and the Courts), and 25 ministries.
2. State's administrative bodies deconcentrated at the local level (11 provinces and 131 districts, of which three of them have also the municipality or *autarquia* status).
3. Autonomous State institutions (including 48 institutes, 17 funds, and 7 inspectorates), which despite being legally autonomous from the administrative, financial, and asset management points of view, cannot enjoy that autonomy because their own revenues are unable to finance at least $\frac{2}{3}$ of their expenses.

Central government units that are not included in the OE

4. Autonomous State institutions that can enjoy their autonomy as their own revenues are able to finance at least two-thirds of their expenses. These institutions include: the INSS, which provides pension coverage for workers in the private sector; the Housing Development Fund, (*Fundo de Fomento da Habitação*) and the Economic Support and Recovery Fund (*Fundo de Apoio a Reabilitação Económica*).

Local governments

5. Mozambique has 33 *autarquias*, which provide local public utility services. They have autonomy over administrative, financial, and asset management matters and are funded by their own revenue and transfers from the central government.

Relations between the government and nonfinancial public enterprises

3. The nonfinancial public enterprise sector in Mozambique can be divided into public enterprises (*empresas públicas*), publicly-owned corporations (*sociedades anónimas*), and State shareholdings in private enterprises.

1.1.4

⁴ Local authority (*autarquia*) budgets are not annexed in full to the State Budget proposal; and in the case of public enterprises, sometimes the information only mentions the previous year's financial balances.

Public enterprises are collective persons with their own legal status and autonomy over administrative, financial, and asset management issues, in which the State holds 100 percent of the capital stock. Such enterprises are authorized to hold shares in other mixed-ownership enterprises. Public enterprises mainly operate in the public utility sectors (water, electricity, radio, television, postal services, and public transport) and the exploitation of natural resources (water, hydrocarbons, and coal). Publicly-owned corporations are those in which the State, sometimes in conjunction with a public enterprise, is the sole or major owner of the capital. Publicly-owned corporations are present in telecommunications, air transport, imports of medicines and recently also in the oil and gas sectors. Finally, the State also holds a major shareholding in private enterprises, sometimes as a result of reverting to the State ownership enterprises that were involved in unsuccessful privatization process, or as a result of the State's intention of having a presence in strategic sectors (Box 2 and paragraph 8).

Box 2. State Participation in Commercial Activities in Mozambique

There are currently three main ways in which the Mozambican State participates in commercial activities.

Public enterprises, which include Rádio Moçambique (radio), Televisão de Moçambique (television), Empresa Nacional de Carvão de Moçambique (mining and exports of coal), Hidráulica de Chokwe (hydroelectric power), Empresa Nacional de Hidrocarbonetos (ENH) (exploration and production of gas and oil), Electricidade de Moçambique (electricity distribution), Empresa Moçambicana de Dragagens, Empresa Nacional de Portos e os Caminhos-de-Ferro de Moçambique (CFM) (harbors and railways), Aeroportos de Moçambique (airports), and Empresa Nacional de Correios de Moçambique (mail services). There are also two public enterprises providing urban transport services: Transporte Público de Maputo and Transporte Público da Beira. Some of these public enterprises have equities stake in private enterprises such as ENH, which has shareholdings in the exploration and production of several oil and gas blocks (Zambeze Delta (15 percent), Blocks 16 and 19 (15 percent), Blocks 2 and 5 Rovuma Basin (10 percent), and Unified Field of Pande and Temande (30 percent). In addition, CFM has an equity stake of up to 50 percent in the operating companies that runs public-private partnerships in the port and railways sectors in which CFM is the signatory.

Publicly-owned corporations, which include Telecomunicações de Moçambique S.A. (TDM telecommunication), Linhas Aéreas de Moçambique (airline), MEDIMOC S.A. (health), PETROMOC S.A. (oil), Companhia Moçambicana de Hidrocarbonetos (CMH, oil), and Companhia Moçambicana de Gasoducto (CMG, natural gas), the latter having a 25 percent share of gas production in the Pande-Temane project.

State shareholdings in private enterprises. In some cases these shareholdings are the result of reverting to State ownership enterprises that undertook unsuccessful privatization process and are not currently operating (e.g., textiles, sugar, etc). In some other cases, these shareholdings respond to the government's objective of having a presence in some strategic sectors. This is the case for *Hidroeléctrica de Cahora Bassa*, S.A. (HCB), (in which the State has a 18 percent stake with the perspective to increase it to 85 percent shortly), Moçambique Celulares (MCEL, cell phones) (26 percent), and MOZAL S.A. (aluminum, 3.85 percent).

There are also several cross-holdings between these shareholding modes, and situations in which 20 percent of shares are reserved for workers in privatization processes. This complicates the process of obtaining a general overview of State involvement in commercial activities. For example, 80 percent of CMH and CMG is owned by ENH, and 74 percent of MCEL is owned by TDM. Moreover, 20 percent of TDM shares have also been held in reserve since its privatization, for eventual sale to the Workers and Technical Staff Group, pursuant to the legal framework governing privatizations (paragraph 20).

4. The legal framework⁵ governing the public enterprise sector is neither clear nor complete.

1.1.4

In principle, the Public Enterprise Law contains sound rules, according to which public enterprises: (i) are subject to the same tax and labor regimes as their private sector counterparts; (ii) can contract loans subject to authorization by the Ministry of Finance (MF); (iii) are entitled to compensation via a transfer from the OE should they be required to apply a public pricing policy; (iv) can sign program-contracts with the MF; and (v) still benefit from outstanding special loan agreements (*acordos de retrocessão*) with the State, even though the signature of such agreements between the State and public enterprises were discontinued in 2004; under these agreements, the State contracted debts on behalf of public enterprises that the public enterprises are responsible for repaying. Despite the rules laid out in the Public Enterprise Law, the prerogatives of the MF to conduct financial oversight of public enterprises are unclear. Moreover, the MF lacks effective legal tools to exert its authority over public enterprise in certain domains, such as distribution of dividends, signature of program-contracts, and collection of the principal and interest payments on *acordos de retrocessão*. It is not clear either whether the legal framework governing public enterprises extends to any such enterprises that local governments may create. Finally, the legal and management framework governing publicly-owned corporations, particularly as regards their relations with the MF, is unclear, since such corporations are not covered by the Public Enterprise Law.

5. The information available on quasifiscal activities undertaken by the public enterprise sector, which could be significant, is scant.

1.1.4

Some public enterprises, particularly in the electricity, water, and transport sectors, are required to implement a public pricing policy, for which they receive subsidies that are clearly identified in the OE. Nonetheless, the information provided in the OE does not make it clear whether the subsidies are sufficient to compensate for the losses caused by implementation of the policy. Moreover, some of these public enterprises have a large volume of receivable accounts, because line ministries tend not to pay for their consumption. Although the *acordos de retrocessão* do not have a subsidy component, they may often represent a form of favorable financing, since public enterprises usually delay payment. According to Mozambique's Supreme Audit Institution, the Administrative Tribunal (TA), in 2005, of the 42 public enterprises that received credits from the State under an *acordo de retrocessão* over the previous two years, only 11 had repaid their respective quotas, either fully or partially. There is no information on the potential fiscal risks related to the operations of public enterprises and publicly-owned corporations.

6. The absence of a specific legal framework for regulating the autonomous State institutions sometimes causes conflict.

1.1.4

⁵ The legal framework established by the Public Enterprise Law No. 17/1991 sets out rules for the creation, organization, and operation of State-owned public enterprises, their relations with central government, and regulation of the SISTAFE Law.

The financial relations between the Treasury and the autonomous State institutions (institute, funds, etc.) depend on provisions contained in the specific laws governing each institution, which are not standardized, and therefore remain unclear. Moreover, as in the case of public enterprises, there is no clarity as to what financial controls the Treasury can apply to those autonomous institutions. For example, in the case of *acordos de retrocessão*, which are still maintained in the case of institutes, there are no clear rules to ensure timely payments on the corresponding agreements. Moreover, apart from a set of provisions scattered throughout the SISTAFE Law, there are no clear rules regulating the budget processes of autonomous State institutions, and no timetables for reporting. Furthermore, the definition of financial autonomy is unclear and usually leads to confusion. In principle, the recognition of financial autonomy must be made in the specific law governing each autonomous institution. However, in practice, autonomous institutions only enjoy such financial autonomy if they are able to finance two-thirds of their total expenses with their own revenues, as established in the SISTAFE Law. This has led to cases in which some administrative entities (such as National Directorates) that generate important own revenues have requested financial autonomy, even when they are not allowed by law to be autonomous.

Relations among the government, the central bank, and the financial public sector

7. The Bank of Mozambique (BM), which is the country's central bank, enjoys operational autonomy. Although it does not carry out any quasifiscal activities of relevance, it bears major costs in implementing monetary policy.

1.1.4

The existence of the BM is provided for in Article 132 of the Constitution of the Republic; it is regulated by Law No.1/1992, which establishes that the BM must implement the government's monetary, credit, exchange rate, and bank supervision policies. Its chief officers include a Governor and a Vice-Governor appointed by the President of the Republic for a five-year term. The technical side of BM operations has benefited from the bank's autonomy in administrative, financial and asset management matters, and the fact that its senior management posts have been held by staff drawn from the BM's own technical career structure. Legal authorization to extend funds to the government, up to a maximum of 10 percent of ordinary revenues, is not used in practice. The treasury's cash flow needs have been satisfied by the issuance of treasury bills on which the treasury makes interest and principal payments. Over the last few years, major progress has been made in clarifying relations between the BM and the treasury, including the transfer of the latter's external debt from the BM balance sheet to the treasury itself, and the implementation of a recapitalization program for the BM. Nonetheless, an arrangement still needs to be established to deal with the remuneration and operating costs of the Treasury Single Account (*Conta Única do Tesouro*, CUT), interest on its daily positive balances, and inclusion of the costs of monetary policy in the OE. Apart from soft loans extended to its staff, the BM does not engage in quasifiscal activities.

Relations between the government and the private sector

1.1.5

8. Following several years of intensive privatization activity, the State's participation in private enterprises is now small, although it has grown over the last few years especially in the natural resource sector.

1.1.5

After an intense privatization process, at present there is no publicly-owned bank or financial institution in Mozambique. As regards the nonfinancial private sector, the State currently has shareholdings in 155 private enterprises, of which only 40 are operating (Box 2).⁶ State participation in these private enterprises takes two key forms. First, the State holds a stake in a large group of private enterprises (many of which are not currently operating), which have reverted to State ownership following unsuccessful privatization processes (e.g., textiles, sugar). Many of these enterprises are, or will be in the future, undergoing a restructuring process (see paragraph 19). Second, and more recently, the State holds stakes in private enterprises or resource projects, either directly or through a public enterprise or a publicly-owned corporation involved in the natural resource sector (CMG and CMH are the most recent with a 25 percent share in the production of gas from the Pande-Temane project), as well as in large-scale projects (e.g., Mozal in the production of aluminum or Cahora-Bassa in the electricity sector; Appendix II).

9. Despite recent improvements, the laws and processes that regulate the nonfinancial private sector are not clear and open, which results in high compliance costs.

Generally speaking, laws and regulatory and administrative processes remain complex (e.g., excessive bureaucracy in registering and obtaining licenses for economic activities, and in custom inspections process, etc.). Recent progress, such as the creation of “one-stop shopping” and microenterprise legislation, has done more to facilitate procedures than to simplify them, while compliance costs remain high. Moreover, the civil service still enjoys considerable discretion in applying the rules, which causes a great deal of uncertainty for the private sector. This seems to be due to the excessive sanctioning powers available to inspectors, which the private sector believes should be the prerogative of the courts. In addition, the various public utility regulatory bodies that exist are not operational and have little impact because their opinions⁷ are not binding on the government and are not published. In the oil sector, public tenders for permits in gas and oil exploration contracts and the approval of environmental impact studies managed by the National Petroleum Institute are very lengthy and not made available to the public.

Relations among the three powers of State on public finance issues

10. The fiscal functions of the executive, legislature, and judiciary are clearly defined by law.

1.1.2

The public finance jurisdictions of the various powers of State are clearly set out in the Constitution of the Republic. The AR has competency (Article 179) to deliberate on the Economic and Social Plan (PES) and approve the OE, in addition to reviewing the budget execution reports and the Government General Account (CGE), prepared by the government.

⁶ These include Hidroeléctrica de Cahora Bassa (HBC), Linhas Aéreas de Moçambique (LAM), Moçambique Celulares (MCEL), MEDIMOC S.A., MOZAL S.A., and PETROMOC S.A. (Box 2).

⁷ These include the water supply regulator (Conselho Regulador de Abastecimento de Águas) and the National Institute of Communications of Mozambique, which are now operational, and the National Electricity Council, which is still not operating despite having been created by law in 2003.

It also considers the government five-year program (PQG) at the start of the legislature. The AR may not table any legal bill that, directly or indirectly, involves an increase in expenditure or reduction in government revenues, or that in any way alters the outcome of the fiscal year currently underway (Article 183). As is the case with other laws, the OE proposal is debated and voted upon in both specific and general terms. Lastly, the judiciary system, which includes Mozambique's Supreme Audit Institution (i.e., the TA responsible for evaluating the CGE), prepares its own budget proposals using the same budgeting mechanism as other public entities.

Relations between the different levels of government on public finance issues

11. The legal framework governing relations between the different levels of government is highly complex, imprecise, and not well-known. This makes it difficult to identify the distribution of responsibilities among jurisdictions.

1.1.3

The Constitution of the Republic of Mozambique provides for a central unitary state, administratively deconcentrated into provinces and districts (*órgãos locais do Estado*); and the existence of local authorities or municipalities (*autarquias*), which, despite enjoining autonomy on administrative, financial and asset management matters, are under the State's tutelage. As shown in Table 1, there are currently 11 provinces, 128 districts, and 33 municipalities in Mozambique. The legal framework specifies functions that are exclusive to the State (Box 3), yet attributes the same functions to various levels of government (e.g., both municipalities and districts are authorized to operate local street cleaning services; both municipalities and provinces are authorized to provide education and health care services, etc.). These duplications do not seem to have generated serious problems thus far, due to the districts' and municipalities' lack of technical and financial capacity to provide these services, and because districts and municipalities usually have different geographical boundaries, except in a few cases where there are overlaps. Another weakness is the lack of clarity surrounding the organizational structures and responsibilities of the State's administrative bodies deconcentrated at the local level (*órgãos locais do Estado*), particularly as regards provinces and districts. In particular, at present the most serious problem is the absence of clear rules governing the responsibilities of districts, which will become separate budgetary units within the OE as from 2008, and therefore, will have the capacity to plan and execute their own budgets. As regards *autarquias*, current legislation neither includes a set of transparent and formula-based rules for the transfers for the central government to municipalities, nor provides a set of financial and tax provisions that are fully consistent with the SISTAFE Law or the General Tax Law (LGT).⁸

⁸ At the time of preparing this fiscal ROSC, a draft was under discussion at the Assembly of the Republic for the reform of the Law of Finances and Asset of Municipalities. The draft aims at making the *autarquias*' legal framework fully consistent with the SISTAFE law, the new General Tax Law, and introducing transparent and formula-based rules for the distribution of transfers to municipalities.

Box 3. Current Distribution of Expenditure and Revenue Responsibilities Among Levels of Government in Mozambique

Legal framework. This consists of the Constitution of the Republic of Mozambique of 2004; Law No. 8 on the State's administrative bodies deconcentrated at the local level of May 19, 2003; Decree No. 11 on the Regulation of the Law on the State's administrative bodies deconcentrated at the local level of June 10, 2005; Decree No. 6 on the Organic Statute on District Governments of April 12, 2006; and the Local Authority Package (*Pacote Autárquico*) consisting of Laws No. 2 on the Legal Framework for Municipalities of February 18, 1997, No. 11 on Finances and Asset of Municipalities, and No. 8 on the Organization and Functioning of the City of Maputo, all dated May 31, 1997.

Levels of government and governance. The Constitution provides for a unitary State with two levels of government: (a) central government bodies, which include the State's agencies operating at the central level (Article 139), and local government bodies (Articles 7 and 262), or State administrative bodies deconcentrated at the local level (provinces, districts, administrative posts, localities and villages or *povoações*); and (b) local authorities encompassing *autarquias* (municipalities and villages) which enjoy autonomy on administrative, financial and asset management matters, and are subject to the State's tutelage (through the provinces). The Constitution provides that autonomous State administrative bodies operating at the local level shall be organized and operate under the principles of deconcentration and decentralization (Article 263), while maintaining consistency with the responsibilities assigned to *autarquias*.

Distribution of responsibilities among the different levels of government. ► *In the case of the State itself*, according to Article 139 (2) of the Constitution, the central government bodies are responsible for the country's sovereignty, legislation, national policies, and, exclusively, for the representation of the State, definition and organization of the territory, national defense policy, public order, supervision of borders, currency issuance, and diplomatic relations. Accordingly, the creation of taxes, including those levied at the municipal level, is the exclusive responsibility of the AR, while the *autarquias* have authority to set local tax rates, within certain limits, and to define their own public utility charges. ► *State administrative bodies at the local level* are responsible for the planning and execution of the central government's sectoral policies at the subnational level, in accordance with the budgetary appropriations assigned to them; and the supervision of such execution through Provincial Assemblies (to be elected in January 2008) and recently elected District Consultative Councils. The districts are also authorized to collect taxes and provide local services (garbage disposal, markets, cemeteries, etc). ► *In the case of local authorities or autarquias*, according to the law, their powers include local economic and social development, the environment, basic sanitation and quality of life, public provision, health, education, culture, leisure and sports, local police, and urbanization, construction and housing, which must be undertaken in coordination with State's administrative bodies deconcentrated at the local level. However, in practice, local authority activities are limited to managing urban land, providing municipal services (garbage disposal, cemeteries, markets, etc.), and issuing permits to provide collective transport services.

Fiscal and financial relations among levels of government. ► *In the case of State administrative bodies at the local level*, the provinces and districts represent deconcentrated State entities with administrative autonomy to execute their own budgets, which are included in the budgets of line ministries. In practice, however, only the provinces have made use of this prerogative, while district budgets are defined and executed as part of provincial budgets. Nonetheless, since 2005 this principle has seen an innovation with the introduction of the Local Investment Budget (*Orçamento de Investimento de Iniciativa Local – OIIL*, also known as the “7 million”), which authorizes the districts to present projects which, once selected by District Consultative Councils, will be included in the provincial budgets. However, the lack of clarity in the procedures to be used and the destinations for such funds seem to have created a number of delays and irregularities in their use. ► As far as the *autarquias*, apart from local taxes (e.g., Property Tax) and shares in a number of minor State taxes (e.g., 30 percent of the Tourism Tax), they receive funds for specific investment projects, and from the Local Authority Compensation Fund (FCA). The latter is a non-conditional transfer, consisting of 1½–3 percent of State tax revenues, whose distribution criteria are identified in the law (population, territory, tax performance index, weighted development index). Nonetheless, due to the lack of information, the only criteria used in practice are the population (80 percent) and territory (20 percent). Local authorities may contract loans but only in emergency situations or for use in social investment projects.

The legal and management framework governing public finance

12. Overall, the legal fiscal and budget framework is clearly defined and consistent with good international practices; nonetheless, some aspects need to be clarified, such as budgetary amendments, the use of unallocated contingency funds, and the budget coverage. 1.2.1

The SISTAFE Law, in addition to regulations, contains sound budgetary rules. In particular, the SISTAFE Law (i) details the contents of the budget documentation; (ii) sets an adequate period for debating the draft budget in the AR (two and a half months); (iii) clearly defines the stages of the expenditure cycle; (iv) mandates the periodic preparation of budget execution reports; (v) calls for the implementation of a computerized system for the integrated management of the government's financial information; (vi) contains rules on cash planning and management, including the establishment of a CUT, and establishes constraints on public entities' borrowing; (vii) introduces a well-defined budget classification; (viii) establishes a well-defined accounting system, which specifies the use of the double-entry accounting regime and well-conceived methodologies and deadlines; and (ix) mandates the registration of State's assets and the implementation of sound internal controls.

Nonetheless, the SISTAFE Law has major gaps. In particular, the SISTAFE Law does not establish: (i) the need to consolidate the budgets of all public entities encompassed by the definition of general government; (ii) timetables for the budget formulation and reporting of the autonomous State institutions; (iii) the need for the issuance of lower rank legislation to regulate the budgetary phases related to planning activities and ex post assessment; (iv) the need for a mandatory involvement of the MF in the analysis and approval of contractual arrangements (e.g., PPP) that could have budget implications; or (v) the need to formally notify the AR of all budgetary amendments or uses made of the unallocated contingency fund (*dotação orçamental*) by the government during the fiscal year. This latter shortcoming is partially compensated for by the fact that each year the Assembly limits the nature of the budgetary amendments that the government can make⁹ without the prior authorization of the Assembly. This system provides the government with some flexibility during the annual budget execution, something that is needed since the legislature holds only two annual 45-day sessions.

13. The legal framework for the tax system is modern, comprehensive, and generally broadly disseminated, although a number of clarifications are needed. 1.2.2

The Constitution establishes that the creation of taxes and modifications of tax main parameters have to be done by law, and therefore are the exclusive prerogative of the AR. As a result of the fiscal reform initiated in the early 1990s, the current tax system in

⁹ The government cannot modify the main budget aggregates as established in Tables A-J of the State budget, which are legally binding. In other cases the Assembly of the Republic generally authorizes the government each year to make redistributions between budgetary items in the cases of: (i) underused budget appropriations; (ii) transfers within institutes and ministries, and between central government and the provinces; and (iii) closure of one of the autonomous State institutions.

Mozambique is consistent with international standards. The system includes a LGT, Law No. 2/2006, which clearly and systematically establishes a set of sound principles on taxation, specifies taxpayer guarantees, and describes the tax administration's powers. The main taxes and customs duties are also defined in accordance with good taxation practices, although at the local level, the Local Authority Tax Code (Decree No. 52/2000) would need to be amended to bring it into line with the LGT. As regards the oil and mining sectors, the recently enacted Law No. 13/2007 has strengthened considerably the transparency of the regime of tax exemptions applicable to the resource sectors. Law No. 13/2007 (i) removes the power of the Council of Ministers, under the Petroleum and Mining Laws, to determine a special tax regime for the resource sectors, and the possibility of negotiating a special tax regime for each contract; (ii) eliminates the application of the 2003 Code of the Fiscal Benefits for Investments to petroleum and mining activities; and (iii) limits the tax exemptions for the mining and petroleum sectors to customs duties (though not fees) and value added tax (VAT) on imports (Appendix II).

14. There are many tax exemptions; although they are well-defined in the legislation and widely disseminated,¹⁰ their impact is not estimated.

1.1.2, 3.1.3

Current tax legislation establishes clear limits to the government's discretion to grant tax exemptions. Tax exemptions can be classified in three types: (i) those that are defined for each tax (e.g., value-added tax); (ii) tax incentives for investments, which are regulated by the 2003 Code of Tax Benefits for Investments (*Código de Benefícios Fiscais para Investimentos*)¹¹ under the Investment Law; and (iii) specific incentives for industrial free zones in relation to large-scale projects (e.g., Mozal).¹² Moreover, the recent reform of the tax regime for oil and mining activities (Law No. 13/2007) is a positive step towards limiting the discretion of tax exemptions even further, since the revised tax code for these two activities explicitly abolishes the right of the Council of Ministers to establish a special regime for oil and mining activities—which will no longer receive a privileged treatment under the Code of Tax Benefits for Investments—and clarifies and reduces the number of tax exemptions for those activities (Appendix II). The value of tax exemptions, particularly those relating to large-scale projects (e.g., Mozal), is high, but the values of the exemptions are not calculated or published. One positive point is that the CGE for 2006 included, for the first time, a table with information on tax exemptions in line with the mandate of the TA Law.

¹⁰ At www.cpi.co.mz/download and <http://www.dgati.gov.mz>, that is, the Investment Promotion Center (Centro de Promoção de Investimentos) and the website of the Directorate General of Taxes (Direção Geral dos Impostos) attached to the Mozambique Tax Authority.

¹¹ Decree No. 16/2003, on the Tax Benefits Code, defines the following types of exemption: (i) generic; (ii) specific (agriculture, hotels and tourism, large-scale projects, rapid development zones, and oil and mining); and (iii) industrial free zones.

¹² Under Decrees No. 35/00 of October 17 and 62/99 of September 21, on the Regulation of Industrial Free Zones.

Tax administration

15. Tax administration procedures are clearly defined in the law, but transparency and effectiveness are limited by the lack of adequate human and technological resources.

1.2.2

Tax and customs administration is consolidated in a single entity, the recently created Mozambique Tax Authority (ATM), which has comprehensive and well-defined responsibilities covering the various phases of the taxation process. These include the assessment of taxes, coercive collection, interim measures, evaluation methods, inspection, assistance to taxpayers, and complaints. The legislation also provides the ATM with tax administration tools that are in line with good international practices, such as the single tax identification number (NUIT) and the implementation of self-assessment practices. ATM staff are covered by a special regime to ensure their neutrality and professionalism (paragraph 61) and by a code of conduct applicable to all its personnel. Nonetheless, the effectiveness of the ATM's tax administration tools is impaired by weaknesses in information technology systems, which prevents the ATM from conducting routine updates of the database that supports the NUIT¹³ and makes it harder for taxpayers to pay self-assessed taxes through the banking system. Moreover, in practice, the ATM lacks qualified staff with appropriate skills in fundamental areas, such as inspection, disputed assessments, and, especially, taxpayer assistance (Box 4).¹⁴ Lastly, the ATM does not have expertise in sectors that could become of major importance to taxation in the next few years, such as oil, gas, and mining.¹⁵

16. Taxpayers' rights are clearly defined in the law and in line with good international practices, but their application is still at the initial stage.

1.2.2, 4.2.6

As is explained in Box 4, taxpayers are entitled to notification, complaint, verification, and assistance. These rights aim to ensure mechanisms for public consultation and dissemination of relevant information, as well as a service for resolving tax disputes. Nonetheless, the private sector believes that information on these consultations should be published, the discretionary powers of inspectors should be better regulated, and bureaucratic processes speeded up.

Public consultation

17. There exist relatively well-established public consultation mechanisms, particularly on draft laws, amendments to the regulatory framework, and substantial changes on policy orientation.

1.2.3

¹³ The Single Tax Identification Number (NUIT), approved by Decree No. 52/2003, is issued to all private individuals and legal entities with taxable income, even if exempt.

¹⁴ The situation in the inspection area is critical, because there are just 18 auditors at the central level (in practice, there are only nine because they work in teams out of necessity).

¹⁵ The ATM is currently negotiating a technical assistance package with the Norwegian Agency for Cooperation to create inspection capacity in these sectors for the future.

Examples of this include the public hearings conducted by the Taxation Council (*Conselho da Fiscalidade*) on the proposed legislative amendments that are under consideration of the ATM. The Taxation Council is composed of representatives of the government, the private sector, and civil society; in some occasions it includes also experts of recognized prestige and officials from the affected line ministries. Another example is the participatory process followed for the elaboration of the National Poverty Reduction Strategy (PARPA, or *Plano de Acção para Redução da Pobreza Absoluta*) through the Poverty Observatory (recently renamed as Development Observatory), in which civil society groups are invited to express their opinions. The discussions on the recently approved procurement legislation are also a good example of how representatives of the public and private sectors can make suggestions on a draft piece of legislation through an open public consultation process. Nonetheless, the capacity of the public at large to participate in the debate of draft legislation may be restricted by the fact that the AR does not have its own bulletin for publishing draft laws or a functioning website.

Box 4. Transparency of Tax Administration in Mozambique

The legal framework governing tax administration is complete and well-defined. The Tax Authority of Mozambique (ATM), which was the result of merging the previous National Tax and Audit Directorate and the National Customs Directorate, was created by Law No. 1/2006 and regulated by Decree No. 29/2006, which complements its Organic Statute. The competencies of the ATM are defined in Law No. 2/2006, the LGT, which is consistent with good international practices. The ATM is an institution with administrative autonomy, whose chairperson is appointed by the Council of Ministers, following an opinion by the Minister of Finance. The ATM is entitled to retain 1 percent of tax revenue collection as its own income.

Tax payment processes are still very costly, owing to: (i) the predominance of manual procedures and the lack of an electronic tax payment system linked to the banking system; (ii) the lack of application of the self-assessment principle, since, in practice, tax officials usually verify, in the presence of taxpayers, one by one all of the tax returns submitted, which results in long queues on payment days; (iii) the poor organization of tax offices, in which desks to attend the public are organized by individual taxes, thereby forcing the taxpayer to submit a declaration in the corresponding window and then join another queue to make payments; and (iv) a multiplicity of forms and payment vouchers. All of these problems will be greatly alleviated by the introduction of the tax collection module in the e-SISTAFE, the *e-Tributação*, for which development the Technical Unit for State Financial Management (UTRAFE), the ATM, and the National Directorate of the Treasury (DNT) are jointly elaborating a business case.

Taxpayers' rights under current legislation are in line with good international practices, but they are not always applied due to the lack of adequate human and technical resources. Taxpayers are entitled to: (i) receive justified notification of all acts affecting their interests; (ii) contest decisions made by the tax administration through administrative appeal and judicial mechanisms, including before the TA in the second instance; (iii) receive clarification regarding the interpretation of tax laws; and (iv) receive guidance on the easiest and safer way of complying with tax regulations. These rights are ensured through: (i) two public telephone lines for consultation, dissemination of legislation, and publication of tax calendars, forms, and informative leaflets (e.g., the recently created Tax Review—*Revista Tributária*), sometimes on the Internet (<http://www.dgati.gov.mz>) or in the context of public conferences and seminars; and (ii) the tax query resolution service—*Direcção de Normaçoão Tributária*—which is quite active in solving issues related to exemptions in large-scale projects. Nonetheless, at present there exists only a three-staff desk in Maputo to provide information and assistance services to taxpayers (the unit is known as the *Loja do Contribuinte* or Taxpayer Shop).

Contractual arrangements

18. Contractual arrangements between the government and public entities or private sector bodies are not made public.

1.2.4

For example, the program contracts between the MF and public enterprises are not published, nor are the concession agreements between the government and enterprises currently involved in prospecting, production, and development activities in the oil and mining sectors. Contracts relating to “mega-projects” operating in industrial free zones and public-private partnership agreements are also difficult to gain access to. Information on the ongoing negotiations, and related risks, of the State's forthcoming participation in large hydroelectric power projects is very scarce.

Legal framework for asset and liability management

19. The legal and institutional framework for the management of the State's participation in private-sector enterprises has not been adapted to the new reality in Mozambique, in which projects in the natural resource sector are becoming increasingly important.

1.2.5, 3.1.5

The MF manages the State's shareholdings in the private enterprise sector through one autonomous State institution, the State Shareholdings Management Institute (IGEPE), which is entitled to 30 percent of dividends from State shareholdings under its management. One of the IGEPE's main responsibilities is the implementation of the State's policies on restructuring and divestment of the State's private-sector share portfolio, most of which can be traced back to unsuccessful privatization processes conducted in the 1990s (paragraph 8 and Box 2). In addition, the IGEPE is in charge of the promotion of the State's participation in strategic commercial sectors. Nonetheless, the IGEPE has not participated in the negotiation and management of recently acquired holdings in some private and public enterprises that operate in the natural resource sectors. These include the creation of some publicly-owned corporations whose governing legal framework is not yet clear (Box 2 and paragraph 3), such as the CMH and CMG, which participate in prospecting, production and development projects in the oil and gas sectors, as well as the stakes held by the National Hydrocarbons Company (ENH) in nearly all gas and oil exploration and production projects (between 15 percent and 20 percent in three of the six exploration blocks). IGEPE also does not seem to have participated in discussions on the Cahora Bassa Hydroelectric Power Plant (HCB) capital reversion operation.¹⁶

20. The legal framework on privatization is widely dispersed and is still based on the laws and decrees that characterized the intensive privatization processes of the 1990s.

1.2.5, 4.2.4

¹⁶ Under the agreement signed in November 2006, the Mozambican government increased its holding in HCB to 85 percent, while Portugal reduced its share to 15 percent. Portugal received US\$950 million under this agreement, of which US\$250 million was paid immediately and the remaining US\$700 million is expected to be paid in a second tranche shortly.

The legal framework¹⁷ dictates that the privatization of public enterprises shall be initiated by the line ministry, endorsed by the MF, and analyzed by the National Commissions for Sector Evaluation and Divestment (which represent workers, the line ministry involved, the MF, etc.), with a final decision being made by the Prime Minister. The legal framework also specifies the set of privatization modalities such as public calls for tender, limited tender, private sale, capital expansion, and sale of shares to workers and technical employees. This framework has been widely used over the last few years to conduct numerous privatizations. As a result, the IGEPE's portfolio has been reduced by 44 percent: the number of enterprises in which the IGEPE participates has fallen from 279 in 2001 to 155 in 2007. As a general rule, all privatizations used to be reviewed by an Interministerial Commission for Business Restructuring (CIRE), whose function was to assist prime-ministerial decision-making on privatizations. However, the CIRE was disbanded in 2007, and the whole privatization framework seems to be under review. As a consequence, there is not at present a clear mechanism in place to govern the privatizations that are currently under discussion.

21. Overall, the legislation for granting concessions for the exploration of natural resources is clear, but there is a need to strengthen certain provisions on the State's liabilities. 1.2.5

Concessions for natural resource prospecting, production, and development are governed by specific legislation, that is, the Mining and Petroleum Laws and related regulations.¹⁸ These laws establish the set of modalities for granting concession contracts for the exploration of natural resources. These concession contracts can be granted through public tenders, direct negotiation, or simultaneous negotiation. They also specify the contract model to be used in each case, and allow State participation to be financed through a share in future production. These contracts are approved by the Council of Ministers and assessed by an Interministerial Technical Commission. However, the legislation does not specifically state that, if projects prove unsuccessful, the State's liability is limited to future production, and, therefore, does not generate other financial or capital liabilities to the State (Appendix II).

B. Openness in Budget Preparation, Execution, and Account Filing

The budget preparation process: clarity and uniformity in process and presentation

22. The calendar for the preparation of the OE is established in the SISTAFE Law and, despite occasional delays, is generally respected (Box 5). 2.2.1

The SISTAFE Law establishes that line ministries should respect the legal deadline for submitting their budget proposals to the "central body in the finance area," without

¹⁷ Law No. 15/1991 of August 3, which regulates the restructuring, transformation and downsizing of the State enterprise sector, including the privatization and sale of enterprises, establishments, installations, and equity in State property; and Decree No. 49/2003, of December 24.

¹⁸ Mining and petroleum operations in Mozambique are governed by the Ministry of Mineral Resources (<http://www.mireme.gov.mz>.) in terms of the Mining Law No. 14/2002, Decree no. 28/2003, Petroleum Law No. 3/2001, and Decree no. 24/2004.

specifying a concrete ministry or timetable. In the past the “central body in the finance area” was interpreted as the former Ministry of Planning and Finance (MPF). However, after the MPF was split into two ministries, the formulation of the OE is a shared responsibility between the National Directorate of Planning (DNP) of the Ministry of Planning and Development (MPD) and the National Directorate of the Budget (DNO) of the MF. Following this change, the distribution of labor between the DNO and DNP has yet to fully become clear. The budget preparation process starts in May, when the MPD sends to line ministries a circular setting the expenditure ceilings for each spending unit and agency, and a deadline, which in recent years has been around July 31, for line ministries to present their budget proposals to the MPD. In compliance with the SISTAFE Law, by September 30 the government sends the budget proposal to the AR, to be approved by December 15. Overall, the 2½-month period for the Assembly to analyze the OE proposal is adequate, and in line with the calendar of the legislature which only meets for deliberation in the second session in late October. Nonetheless, in practice, the work of analysis and voting on the OE proposal is somewhat compressed and in most years the budget is approved a few days after the legal deadline of December 15.

Box 5. The Budget Preparation Process		
Deadlines	Activities	Legal basis
According to the SISTAFE Law, the fiscal year follows the calendar year. The main stages in the budget preparation process are as follows:		
From October of the previous year until May	Development of macroeconomic and fiscal projections to be included in the Medium-Term Fiscal Framework (CFMP), which will be used to prepare the draft PES and draft OE.	Decrees on the MPD and MF’s main functions and responsibilities
Early May	Development of the Guidelines for the Formulation of the PES and OE proposals or “ <i>Orientações para Elaboração do PES e Proposta do Orçamento do Estado</i> ,” which instructs line ministries on the parameters they should use in the formulation of their budget proposals, which will be subsequently discussed with the DNO.	
July 31	All spending units and autonomous State institutions of line ministries must send their budget proposals to the MF.	Circular from MPD
Mid-September	The MF has until mid-September to consolidate the budget proposals of line ministries and present the draft OE to the Council of Ministers for its approval.	
September 30	Deadline for the government to submit the OE proposal to the AR.	SISTAFE Law, Art. 25
December 15	Deadline for approval of the OE by the AR.	SISTAFE Law, Art. 26

The medium-term scenario and the policies on which the budget preparation is based.

23. The budget estimates and the underlying macroeconomic assumptions are clearly presented in the budget documents, although the correlation between them is not made explicit.

2.1.2

The regulations of the SISTAFE Law on the elaboration a CFMP (*Cenário Fiscal de Medio Prazo*, CFMP) has institutionalized the usual practice followed by the government of Mozambique, started some years ago, of providing the OE with a medium-term perspective. The CFMP closely follows the objectives of the PARPA and the government's five-year plan (PQG), specifies the macroeconomic assumptions to be used in preparing the OE proposal, and sets budgetary ceilings for all line ministries (Box 6). The SISTAFE Law regulations state also that the CFMP will be a rolling scenario, updated annually in each budget cycle. Until recently, the CFMP was conceived as a technical tool not meant to be circulated outside the MF. Nonetheless, since 2006, it has become a normal practice to submit the CFMP to the Council of Ministers, which uses it in setting expenditure limits for the fiscal year. The CFMP includes fiscal data on the latest completed fiscal year, fiscal estimates from the current year, and projections for the reference year for which the budget is being proposed and the two following years. Bearing in mind that the CFMP is conceived as an internal government document, the draft OE law is sent to the AR together with another document, the “Foundations for the draft OE Law,” which summarizes the content of the CFMP particularly in terms of its macroeconomic and fiscal projections. Nonetheless, neither the CFMP nor the “Foundations” makes explicit the correlation between the macroeconomic assumptions and budget estimates.

24. The budget documents include a discussion of the medium-term fiscal policy objectives, although sometimes incurring in certain overlapping and duplication.

2.1.2

In Mozambique there exists a multiplicity of planning and budgeting document (Box 6). The existence of the PES and CFMP can result in unnecessary duplication and content overlap. The PES presents recent progress in improving key social-economic indicators and how the envisaged physical targets will contribute to reach the Millennium Development Goals. However, the PES also sets out the objectives of the fiscal policy, including detailed targets for line ministries and main fiscal aggregates that are consistent with the medium-term fiscal targets envisaged in the PARPA. This is an information already contained in the “Foundations for the draft OE law,” which is based on the CFMP, and also sets macroeconomic and policy objectives for the medium term.

25. At present, Mozambique’s fiscal policy is guided by certain flexible rule-based principles, such as the PARPA’s priority expenditure objectives and the CFMP fiscal targets.

2.1.2

The objectives to be achieved in priority expenditure, with the corresponding physical targets, are set out explicitly in the PES and OE. On the fiscal front, the CFMP records the fiscal target that would be used in monitoring and measuring the fiscal policy stance. At present, that fiscal target is the net lending to the government (*Crédito Líquido ao Governo*), which was chosen when adopting the International Monetary Fund's (IMF) Policy Support

Instrument. Another important fiscal target is to increase tax revenue by ½ percent of GDP per year.

26. Estimates of new revenue and expenditure initiatives and the recurrent costs of government policies are not clearly identified in the budget documentation. 2.1.3

The PES presents all government actions in detail, although without a differential treatment for the new and ongoing actions. Therefore, in order to identify the new actions and policies that the government plans to implement in each fiscal year, it is necessary to conduct a comparison between the PESs of current and previous fiscal years. As regards the OE, it does not allow for the identification of new actions and policies because it does not yet use the programmatic classification. One of the advantages of the forthcoming adoption of that classification will be a more precise identification of the funds destined for each new project and/or action, thereby allowing new actions to be identified through their own codes.

Box 6. Budget and Planning Documents in Mozambique

2025 Vision (*Visão 2025*): The MPD is developing a long-term plan known as “Visão 2025”, which aims to reflect the consensus of all political forces that govern the country or aspire to do so.

Five-year Government Plan (PQG): This is structured as a series of objectives to be achieved during the government term (five years). The government five-year plan (PQG) outlines the government's policy options, together with a list of priority actions for each sector, but without specifying the linkage between objectives and actions.

National Poverty Reduction Strategy (PARPA): This is also a medium-term plan; it sets out the activities (and respective costs) to be implemented to reduce the poverty rate. It also contains projections of the external assistance profile through to 2014.

Medium-term Fiscal Framework (CFMP): A document to guide the planning and budgeting process, which serves as a basis for defining budget ceilings. It is updated annually on a rolling basis, with the first of its three year cycle becoming the basis for the OE for that year. It is intended to inform the strategic plans of each line ministry and province. It is prepared with the participation of all public entities covered by the OE. Although it is not based on any formal legal framework, the CFMP usually follows a pre-established calendar, which is available on the Internet at the following address: <http://www.dnpo.gov.mz/cfmp/metodologia.html>.

Sector and Provincial Plans: The medium-term strategic plans for each line ministry or province contain priorities for a five-year period, indicating the costs involved if the plan is fully implemented.

Economic and Social Plan (PES): This document accompanies the draft OE of each year. It is based on the CFMP. It establishes a link between the strategic plans of line ministries and the objectives contained in the PARPA.

State budget (OE): The OE contains the funding source and costs of projects and government actions needed to attain the PES indicators.

Fiscal sustainability analysis

27. Neither the OE nor its accompanying documents provide a detailed analysis of the sustainability of the fiscal policy, or a sensitivity analysis in relation to the main economic and political assumptions. 2.1.4

Sustainability and sensitivity analyses are also not performed internally by the technical services involved in preparing the OE and CFMP. Nonetheless, both the PES and the “Foundations for the draft OE law” establish that fiscal sustainability is one of the government's objectives, which it plans to achieve by reducing the country's external dependence, increasing tax revenue, and enhancing the efficiency of public expenditure. The new 2006–09 PARPA, which takes a more medium-term view than previous PARPAs, contains alternative macrofiscal scenarios, including higher-than-projected flows of external assistance and debt relief funds.

Coordination of budgetary and off-budget activities.

28. Mechanisms for coordination between the government and development partners in respect of externally funded off-budget activities have improved substantially over the last few years. 2.1.5

Following the implementation of the integrated financial management information system, or SISTAFE Information Technology System (e-SISTAFE), to support the government's financial payment since November 2004 and budget execution since September 2005, the government now has a more effective tool to monitor the use of donor funds. The emergence of this new tool has increased the willingness of Mozambique's development partners to provide funding in the form of general budget support instead of exclusively to sector-specific projects. Therefore, the government is now in a better position to continue trying to convince international partners to include their projects in the State budget. Nonetheless, some donors still have doubts about the internal controls and safeguards provided by the e-SISTAFE and the reliability of the reports generated by the system. These doubts led some donors to keep the sector projects financed by them outside the State budget—and outside the Treasury Single Account (CUT) execution circuit (Box 7). To better coordinate discussions on budgetary support in general, and on the inclusion of sector projects in the State budget, in particular, a group of 19 donors (known as the G-19) was set up to discuss those issues with the government. As a result, certain projects that previously were outside the OE are now included in the budget. However, only those projects financed out of a Common Fund, in which some donors pool their funds to finance a concrete project, are in fact executed under SISTAFE rules. All in all, about half of all projects funded with external resources still remain outside the OE.

Box 7. Key Definitions in Relation to SISTAFE in Mozambique

SISTAFE: State Financial Management System, created by Law No.09/2002, which defines basic principles and rules on budget, accounting, cash management, assets and internal control.

e-SISTAFE: Integrated financial management information system that supports the implementation of the SISTAFE, as defined in the regulation. At present, the e-SISTAFE includes a budget execution module, which allows for the direct execution of the budget or by fund advances (indirect channel), and a budget formulation module. Additional modules relating to revenue collection, payroll and assets management will be developed in 2008. The system has been rolled out in nearly all State bodies except for some autonomous State institutions and districts.

Off-Budget: Refers to all revenues and expenses outside the OE, including those of certain autonomous institutions of the State such as the INSS, and also several donor-funded projects.

Off-CUT: Refers to resources and expenses that are not channeled through the Treasury Single Account (CUT), whether or not included in the OE. Relates essentially to expenses funded with donor resources and destined for various sectors.

29. Revenues from natural resource operations, although still small, are not clearly identified in the OE. 2.1.5

The information provided in budget document allows for the identification of the Tax on Mining/Petroleum Production (Royalties) and Land Tax (*Impostos sobre a produção Mineira/Petrolífera e de Superfície*), and the earmarked and own revenues (*Taxas de Prestação de Serviços*) of the Mining Development Fund.¹⁹ However, the budget documents (proposal, law, etc.) do not make it possible to identify either the corporate income tax revenue from mining and hydrocarbon companies, or the funds obtained from mining concession revenues. For instance, the withdrawals from the Concessions Resources Fund for the Moatize mine are reported in the budget under the head “capital income.” However, as breakdown of “capital income” is not provided, it is difficult to know the volume of the withdrawal authorized in the budget (Appendix II).²⁰

Accounting and reporting on budget execution

30. Information on and control of budget execution phases are not yet fully satisfactory, reflecting the incomplete roll-out of the e-SISTAFE, the still limited use of the system by the spending units in which it is available, and a failure to develop several of its modules. 2.2.1

The e-SISTAFE, which allows for the control and reporting of budget execution processes, has not yet been fully rolled out to all entities included in the OE. In those where the system

¹⁹ The Mining Development Fund is an autonomous State institution in charge of providing technical and financial assistance to the many Mozambican small scale mines and artisanal workers in the mining sector.

²⁰ This issue has been alleviated by the government commitment to sustainably manage the Moatize Fund and report withdrawals from it in the context of the IMF-supported PRGF-arrangements and Policy Support Instrument.

has already been installed, only a small percentage of expenses is executed through the e-SISTAFE's direct budget execution function. This means that most expenses are still executed through the indirect budget execution function based on advance of funds, under which detailed budget operations are recorded ex post (for CUT operations) or by ex post integration of partial balance sheets (in the case of off-CUT operations). Under the indirect accounting function, records are entered manually, which lowers the quality of fiscal information produced. This risk is aggravated in the case of revenues, given the absence of an electronic system for paying taxes through the banking system. This means that tax collections are deposited mainly into the tax offices' bank accounts, usually held in the BM, from where they are transferred to the CUT, usually within two days. This implies a substantial loss of information, as when the funds are transferred to the CUT, the tax revenues are classified manually by the National Directorate of the Treasury (DNT). With regard to information on the government's assets, there are still no accounting data, because only the flows arising from budget execution are currently recorded. A comprehensive inventory on the government physical assets is not elaborated at present. Information on stocks of financial assets and debt has not yet been integrated into the e-SISTAFE.

31. Within the constraints mentioned in the previous paragraph, the accounting system is capable of producing in-year reports on the execution of the OE. 2.2.1

The e-SISTAFE is a modern, advanced system that is easy to operate. Its functions include the automatic recording of budget execution and accounting operations and automatic elaboration of reports. The Basic Chart of Public Accounts (PBCP) embedded in the e-SISTAFE ensures the consistency between the Chart of Accounts and the budget economic classification of revenues and expenditure. It is also possible to obtain accounting data on the budget execution classified according to other criteria, such as administrative, functional, and source of funding. It is important to note that the tables contained in the State Budget Execution Report (REOE) for the first quarter of 2007 were extracted by directly consulting the e-SISTAFE, thereby demonstrating significant progress in the process of extracting management data on budget execution. Nonetheless, the reports prepared by e-SISTAFE are only available in formats that are predetermined by the technical unit responsible for developing the system (i.e., UTRAFE), and therefore cannot be altered, improved, or adapted by users for their own needs. The reports obtained directly from the e-SISTAFE are also of limited effectiveness at present, because they do not cover all government institutions and projects.

32. The AR receives information on budget execution quarterly. However, it is not involved in the mid-term reviews of the budget execution conducted by the government, as it is not in permanent session throughout the year. 2.2.2

In compliance with the SISTAFE Law, within 45 days following the end of each semester, the government submits to the AR an assessment of the implementation of the PES (*Balanço do PES*). Although there is no specific legal deadline, the government also submits the REOE to the Assembly within 45 days following the end of the quarter. However, analyzing the information contained in the REOEs is a complex task, as the REOE usually does not include the original budget appropriations, but rather the budget as amended by the government within the limits granted by the Assembly. The Assembly is also not involved in the decision

on how to spend the "unallocated contingency fund" (*dotação provisional*), which is normally used to execute expenditures not contained in the OE.²¹ Only in very exceptional cases does the Assembly participate in amending the State budget, when it is necessary to modify the budget aggregates (Maps A-J).

33. Information on the budget amendments introduced by the government during the fiscal year is scarce, and it is not presented in a way that can easily be reconciled with the original budget appropriations. 2.2.3

The government is not legally required to report or publish, in the assessment of the implementation of the PES or in the REOE, the budget amendments that are introduced during the fiscal year. Nonetheless, in practice, the REOEs usually include two columns, one for the original budget appropriations and another for the amended budget appropriations, but which are very difficult to reconcile as no clarification or explanation is provided. In addition, the government does not have to report, justify, or even publish the way in which the “unallocated contingency fund” has been used and applied. This contradicts the principle of publicity and transparency established in the SISTAFE Law. The CGE also does not specify in its explanatory tables whether the budget column corresponds to the original budget or the amended one.

34. The final fiscal accounts audited by the TA are available 11 months after the end of the fiscal year, but the Assembly does not issue an opinion before the closure of the fiscal year and thus before the new OE is approved. 2.2.4

In line with the SISTAFE Law, three months after the end of the fiscal year, the MF prepares the CGE, which is simultaneously sent to the AR and the TA. The TA then issues its opinion, which is sent to the legislature by November 30. The Assembly receives the TA's opinion, considers it, and votes on the CGE at the subsequent session in March, i.e. three months after the following fiscal year's OE has been approved. Under the law, the CGE must encompass 100 percent of revenues and expenditures from entities included in the OE, including donor-funded expenses, as well as including information on the accounts of all public entities in annexes, (e.g., the INSS and public enterprises). In practice, however, certain revenues and expenditures of certain public entities are not included in the CGE, as has been pointed out by the TA in its opinions on recent years' CGEs.

C. Public Access to Information

Commitment to timely publication of fiscal data

35. The timetable for the elaboration of the budget execution reports, as announced by the government, is respected, and the reports are quickly released to the public. In some cases, however, they are not wide-ranging (Box 8). 3.3.1, 3.3.2

²¹ The “contingency fund” is estimated on the basis of historical trends and usually represents around 10 percent of total budgetary expenditure.

As mentioned in paragraph 32, the government prepares the REOE and sends it to the Assembly within 45 days after the end of each quarter, although there is no legal mandate to do so. The REOE should be published in the Bulletin of the Republic, something that, however, is not done in practice. The REOE is based on information provided by the e-SISTAFE and ex post incorporation of the execution outcomes related to the operations and public entities not included in the system. Nonetheless, the public entities with autonomy on administrative, financial and asset management issues, such as the INSS, are not bound by the same deadline for preparing their quarterly budget execution reports. In the case of the *autarquias*, it is also not clear whether they have to prepare an REOE. Each semester, the government prepares an assessment of the implementation of the PES, which is more comprehensive than the REOE, and includes information on the evolution of a set of socioeconomic indicators. There is also a predetermined calendar for the elaboration of the CGE that, at present, represents the more comprehensive budget execution report.

Box 8. Reports on Budgetary Execution in Mozambique

The State's Budget Execution Report (REOE): This quarterly report is sent to the AR within 45 days following the end of the quarter, despite there being no legally established deadline.

Assessment of the Implementation of the PES: Sent to the Assembly 45 days following the end of the semester, in compliance with the SISTAFE Law. Contains an assessment of the implementation of the PES during the first semester of the year. A copy of the PES balance sheets for recent years can be found at <http://www.dnpo.gov.mz>.

General Government Account (CGE): According to the SISTAFE Law, the CGE should include comprehensive information on budget execution, including detailed information on the execution of priority spending, financing, operations involving variations in State financial assets and liabilities, external debt stocks by creditor, cash transactions, balances on government accounts, tax collections, earmarked revenues of State entities, a summary of grants, with some of this information presented at the provincial level; and a detailed and consolidated inventory of State property, including, since 2005, that of public enterprises, the autonomous State institutions, and local authorities. However, the CGE does not yet include the General Government Balance Sheet as required under the SISTAFE Law. On the Internet it is possible to consult the opinion prepared by the TA on the CGEs for 1998, 2003, 2004, and 2005 (<http://www.ta.gov.mz>). However, it is still not possible to access the CGE and its annex on the Internet.

Coverage and quality of budget documentation

36. The budget documents do not fully cover the fiscal operations of the central government, nor do they present consolidated data for the central and general governments.

3.1.1, 3.1.4

The budget documents do not cover some of the autonomous State institutions, for example the INSS, which prepares its own budget and submits it to the Ministry of Employment (paragraph 2). The existence of parallel budgets, particularly as regards autonomous State institutions, impairs the OE's ability to provide a general overview of the government's fiscal aggregates. Moreover, neither the OE nor the CGE contains summary tables of the central government's fiscal position, including consolidated budgets for all of the autonomous State institutions. As the fiscal accounts of local authorities are also not consolidated, it is

impossible to calculate the fiscal balance corresponding to the definition of general government.

37. Defense expenditure is fully declared in the budget.

3.1.1

The budget of the Ministry of Defense is treated equally with those of other ministries, even in terms of the detail of the information provided. It is possible to break down defense expenditure by economic classification, and it is also possible to identify the funding sources for each expenditure item. From this analysis, it can be seen that the expenditures of the Ministry of Defense of Mozambique are basically funded from Treasury's general resources, except for a small fraction of own revenues.

Scope and quality of budget documents

38. The data contained in the REOE only refer to the execution of revenues and expenditures recorded in the e-SISTAFE, and do not provide any financial or comparative analysis vis-à-vis original budget appropriations.

3.1.1, 3.1.4

In principle, the data contained in the REOE should be comprehensive, but as explained above, not all projects have their budget execution channeled through the e-SISTAFE. Some projects funded by external donors are executed outside the system, and a special and cumbersome procedure is needed to integrate them ex post into the REOE and the e-SISTAFE. This arrangement substantially reduces the quality of the REOE, as there are no mechanisms in place to ensure that the information integrated ex post is complete and up-to-date. This greatly complicates comparison of the results of budgetary execution with the OE. The CGE, which is the most comprehensive budget execution report developed so far, contains a comparative table of the annual budget execution vis-à-vis the budget appropriations, which, for year 2006, showed an execution rate of 104.5 percent for revenue and 91.8 percent for expenditure. Nonetheless, the analysis is again complicated by the fact that the CGE does not specify whether the column referring to the budget appropriations relates to the original OE or to the modified version following in-year budget amendments.

39. The budget documents do not report on the fiscal position of subnational governments.

3.1.6

The only expenditures of local governments included in the OE are the transfers that they received from the central government through the Municipal Compensation Fund and the Local Investment Fund. The total amount of both funds is identified in the State budget, but their distribution, which would be possible to determine by applying the budget classification, is not included in the proposed OE sent to the AR. The same applies to the CGE, which does not contain any details on the fiscal accounts of municipalities, with the exception of an inventory of physical assets that was included for the first time in the 2005 CGE. Local governments are required to submit their fiscal accounts to the TA, but the latter does not produce any opinion or analysis on them.

Past and projected fiscal data contained in the budget

40. **The OE proposal includes estimates for two subsequent fiscal years and contains partial information from the previous and current fiscal years.** 3.1.2

In compliance with the SISTAFE Law (Article 24), the proposed OE includes information—although preliminary and highly aggregated—on the budget execution of the current fiscal year. However, this information does not cover all OE revenues and expenditures, since the execution reports of many of the donor-funded projects are usually not available at the time that the budget proposal needs to be submitted to the legislature. Also in compliance with the SISTAFE Law, the budget documents for 2007, and in particular, the “Foundations for the draft OE law” included for the first time information on the previous year's fiscal execution (based on the 2005 CGE) and the current OE (2006), together with data from the fiscal year to which the OE refers (2007) and projections for the two subsequent years (2008 and 2009).

Treatment of fiscal risks, tax exemptions, contingent liabilities, and quasifiscal activities

41. **The budget documents do not contain any analysis of fiscal risks and sensitivity of fiscal estimates to changes in the macroeconomic scenario; nor do they contain information on the State's contingent liabilities, quasifiscal activities, and tax exemptions** 3.1.3

Information on contingent liabilities and quasifiscal activities is scarce, partial, and dispersed; and in most cases it is confined to the line ministries and the public enterprises that are under their control. Subsidies paid to public utility providers are clearly identified in the OE and in the CGE; however, the link between the subsidies and the quasifiscal activities conducted by the public enterprises (e.g., public pricing policies) is vague. The OE also does not provide information on contingent liabilities related to the restructuring processes that the IGEPE plans or is in fact undertaking, such as potential severance payments, overdue wages, guarantees, etc. Although the OE does not contain information on tax exemptions, the CGE provides an estimate of tax benefits by type of tax, together with a brief explanation. Nonetheless, the methodology for the calculation of the tax exemptions is not explained or even made explicit.

Publication of data on debt and other liabilities and on financial assets

42. **The budget documents contain little information on public debt.** 3.1.5

The OE does not include any information on debt stocks. The CGE includes a list of beneficiaries of *acordos de retrocessão* with the treasury, whether these be public enterprises, funds, or private enterprises. The CGE also contains a list of outstanding stocks of external debt, classified by group of creditors.

43. **The management of the State's stock of debt is centralized at the level of the National Directorate of the Treasury (DNT) and responds to sound principles.** 3.1.3

The DNT uses the Commonwealth information technology system for monitoring the debt stock, payments, and disbursements during the period, and for preparing managerial reports. These reports guide the BM in producing quarterly statistical data on the State debt and help compose the CGE upon closure of the fiscal year. The legal framework governing debt arrangements contains clear rules, for example: (i) the SISTAFE Law establishes that the signature of contracts and international agreements requires prior authorization from the MF and prior registration in the OE; (ii) the OE specifies conditions for contracting domestic or foreign loans, and *acordos de retrocessão*; it also sets limits on the State's guarantees; and, (iii) there is a decree limiting the DNT's ability to issue treasury bills related to the budget execution and cash management processes. However, there is no specific legal provision regarding borrowing by autonomous State institutions, which should at least observe the provisions of the SISTAFE Law by default.

44. The information published on contractual debt, which is controlled directly by spending units and autonomous institutions of line ministries, or on pension liabilities, is sparse and scattered. 3.1.5

Contractual debts directly entered into by line ministry agencies (payable accounts, unpaid bills to suppliers, etc.) are controlled on a decentralized basis and there is no consolidated information on such State liabilities within the DNT. There is also no information on INSS pension liabilities, or on the high levels of payment arrears in contributions to the INSS.

45. Information on the government's financial assets is scarce and partial 3.1.5

Data on State shareholdings, managed by IGEPE, is scarce and not systematically disseminated. In addition, the CGE does not include a State balance sheet or report the values of the State's financial assets and liabilities. The information included in the budget documents and in the CGE on the stock and flows of resources from the Concession Fund (*Fundo de Recursos de Concessão*), related to use of the Moatize mine, is also very sparse.

Analysis of long-term public finance

46. No systematic analysis is made of long-term fiscal sustainability; no analysis of the impact of current policies or other sectoral events in the government's fiscal balance in the long run is conducted. 3.1.7, 3.2.1

Except for analyses of debt sustainability in the context of debt relief initiatives (e.g., HIPC, MDRI), the long-term sustainability of fiscal policy is not systematically analyzed. In addition, the projections of Mozambique's potential future revenues from natural resources are neither systematically estimated nor published (Appendix II). This is an area for concern, since in a few years' time the natural resource sector will represent a large portion of the Mozambican economy and may therefore exert a major influence on public accounts. The INSS also does not prepare long-term actuarial estimates.

Budget guide

47. There is currently no publication summarizing the content of the budget in simple language that can be understood by persons who are not familiar with budgetary and financial language. 3.2.1

Despite the poor dissemination of fiscal information, local communications media (e.g., radio and TV stations) directly transmit the discussions held by the Planning and Budget Commission and the Plenary of the AR when debating the OE proposal.

Budget classification

48. The OE is an input budget, i.e. based on the resource demand of line ministries and not on outcomes, in which expenditures are presented according to the institutional and economic classifications²² and revenues according to the source of funds. 3.2.2

Box 9. Current Budget Classifications in Mozambique

Economic classification. The economic classification of revenue and expenditure is broadly in line with the IMF's Government Finance Statistics Manual (GFSM) of 1986. Both economic classifications (for revenue and expenditure) are fully incorporated into the Basic Chart of Public Accounts (PBCP), thereby guaranteeing the integrity and comparability of budgeted and executed amounts.

Functional classification. The classifier of the functions of government (COFOG) has been adopted since 2005, although the functional presentation of the budget is not formally approved by the Assembly and therefore is not legally binding. It is broadly consistent with GFSM of 2001, except for minor and acceptable variations at the third and fourth levels of the classification.

Institutional classification. Although it allows for the identification of the provincial governments, the institutional classification is overly aggregated. Also it does not allow the discrimination between budget units and autonomous institutions under the authority of line ministries. Moreover, it codifies each budget unit twice, depending on whether the item is current or investment expenditure, thus producing a clear overlap with the economic classifier.

Classification by funding source. Funding sources are classified into the following categories: Treasury, other sources, Treasury from previous fiscal years, other sources from previous fiscal years, earmarked funds originating from Treasury sources, and earmarked funds originating from other sources. This makes it possible to identify the funds provided by each individual donor.

In the case of current expenditures, for each spending unit, the OE presents information on large economic aggregates such as payroll, goods and services, subsidies, debt, transfers, capital, and financial operations. Investments are presented as projects of the spending unit, with funding sources divided into domestic and external components. The institutional classifier has shortcomings because it is highly aggregated, displays certain duplications, and overlaps with the economic classification. The functional classification, whose application is not mandated by law, allows for adequate monitoring of expenditures on poverty reduction.

²² Decree no. 23/2004 of August 20, containing provisions regulating SISTAFE (regulation of the coverage of the budget, budget classifications, Chart of Accounts, etc.).

Nonetheless, there is no program-based classification. Therefore, to ascertain the government expenditure in the fight against HIV/AIDS, for example, it is necessary to add the figures for six different projects carried out by the Ministry of Health, plus those of the National Council Against HIV/AIDS. The government plans to gradually adopt a programmatic classification beginning with the 2008 State budget.

General government balance

49. The general government balance is not the main indicator of the fiscal position presented in the budget documents. 3.2.3

The main fiscal policy indicator used in the budget documents is the fiscal balance reported in the OE, that is, the balance obtained by consolidating the operations of the central government operations, administrative State bodies deconcentrated at the local level, the autonomous State institutions that cannot enjoy autonomy because their own revenue are unable to cover at least two-thirds of their expenditure, some donor-funded operations, and transfers to local authorities. This means that certain expenditures financed with their own revenues by autonomous State institutions such as the INSS and by local authorities, are not included. This is broadly the same indicator used for the Mozambican government's program supported by the Fund through the recently agreed PSI, although in this case the fiscal target and monitoring are focused on the net lending to the government (paragraph 25). The CGE does not contain an indicator of the consolidated balance of the general government, nor does it include a consolidated financial position of public enterprises.

Result-oriented budgets and reporting

50. The government has several planning instruments that set out the objectives of government actions, but those instruments lack an efficient link with the OE. 3.2.4

Planning instruments include long-, medium-, and short-term instruments (Box 6). Although they all relate to each other, links between medium-term instruments and the OE are deficient, reflecting the differences between the language, matrices, and classifications adopted by those instruments. It is thus extremely difficult to assess the implementation of the policies and objectives outlined in the planning instruments by analyzing the execution of annual State budgets. Recognizing this shortcoming, the government aims to introduce pilot program-budgeting schemes in several specific areas as early as the 2008 OE, building on a number of programs that already exist within some line ministries.

D. Guarantees of Integrity

Integrity of the budget and accounting processes

51. Aggregate budget data are relatively realistic, but at a disaggregated level it is difficult to draw the same conclusion due to differences between budget estimates and actual outcomes which are not published on a timely basis. 4.1.1

The number of supplementary budgets, which are mandatory for altering aggregate levels of the OE, have diminished in recent years thanks to improvements in the formulation of the State's budget and more predictable disbursements of donors' funding. However, it is very difficult to assess the composition of the budget as executed with respect to the original budget due to the government's flexibility to introduce budgetary amendments within the limits authorized by the Assembly, and the freedom the government enjoys in the application of the "unallocated contingency fund" (paragraphs 12, 32, and 33). Moreover, there are no mechanisms for the publication of the amendments made to the budget appropriations throughout the year; in addition, the budget execution reports (REOE, *Balanço do PES*, CGE, etc.) do not allow for the identification of these amendments. The opinions on the CGE elaborated by the TA present the same problem, that is, budget execution is assessed against the amended budget appropriations rather than the original budget appropriations, without mentioning which alterations were introduced by the government. As a result, it is extremely difficult to assess whether or not budget execution diverged from the original budget appropriations as approved in the OE Law.

52. The budget documents and final fiscal accounts do not explicitly specify the accounting policy, apart from mentioning that the SISTAFE Law needs to be respected.

4.1.2.

The State budget's text establishes that the budget needs to be prepared in accordance with the SISTAFE Law. Therefore, it can be inferred from that that the OE should comply with the criteria on accounting records and statements specified in the SISTAFE Law, including double-entry accounting, cash-based budgeting in the case of revenues, and commitments-based accounting for expenditures. The SISTAFE Law also establishes a set of sound accounting principles, including consistency, materiality, comparability and timeliness, among others, all of which are in line with international standards. However, neither the SISTAFE Law nor the CGE itself specifies the criteria that need to be used to prepare the CGE. In fact, the fiscal data included in the CGE seem to be more related to the flows than to the stocks involved in the execution of the budget, focusing on actual revenues and expenditure executions, the government net domestic credit, tax exemptions, financial flows related to borrowing and lending transactions, financing of the State budget, and the incomes and expenditures of autonomous institutions. In fact, the CGE contains only (so far) partial information on the government's inventory of physical assets, and still does not include the government's balance sheet as required under the SISTAFE Law.

Account reconciliation practices

53. The timely reconciliation of accounts is conducted only occasionally; when it is conducted, it is done manually or with a substantial delay, and without disclosing information on discrepancies.

4.1.3.

The reconciliation of the balance of the CUT with the revenue flows is done manually by the DNT staff. Any deposits—credits—to the CUT can be traced through the bank statement issued by the BM and the information provided by the DGI on the economic nature of the revenue deposited. The accounting entries are made and confirmed in the e-SISTAFE. On the expenditure side, however, the reconciliation processes are not that clearly identified, as the

e-SISTAFE currently only records accounting flows and not stocks. With regard to State debt controlled by the DNT, at the end of the fiscal year, the stocks recorded in the Commonwealth system are reconciled with the information provided by creditors. This procedure lasts about four months, during which certain discrepancies are often identified, especially as regards bilateral agreements, which are usually explained by exchange rate differences or by the calculation of penalty interest. As regards the CGE, it does not contain any information on the discrepancies between: (i) actual expenses and original appropriations; (ii) accounting records and bank accounts; and (iii) lending to the government/external financing (contained in the monetary summary) and the public fiscal outcome (in this case the CGE usually mentions the existence of a discrepancy and reports its value without explanation). With the further development of the e-SISTAFE, it is hoped that these reconciliation procedures can be improved and any discrepancies published and explained.

54. Fiscal information does not include any historical data; in any case, historical comparisons are difficult to make due to the recent implementation of the e-SISTAFE and increased coverage of the OE. 4.1.3

As no integrated system for providing consolidated information existed until 2005, it was not feasible to prepare historical series that were comparable over time. Therefore, in practice, the CGE only provides basic information on budget execution for the current year compared to that of the immediately preceding one. However, there exist some remarkable efforts to present historical data. For example, the opinions issued by the TA usually include a historical series of fiscal data from 2000 until the present. The new PARPA also makes an effort to prepare historical series and its text warns of comparison difficulties owing to differences in the scope of the OE over the period in question. Once budget execution via the e-SISTAFE is definitively implemented, it will be possible to develop historical series of fiscal data in the future.

Internal control

55. The General Civil Servant Statute sets forth the ethical principles applicable to civil servants in central, provincial, and district government bodies; civil servant contracts have to be previously authorized by the TA. 4.2.1.

The Statute is supplemented by additional rules on ethical standards (*Normas Éticas Deontológicas*), which are applicable to the country's 150,000 civil servants and also to contracted public-sector workers. In addition to those regulations, there is a code of conduct for government employees that defines the professional values and behavior of managers and holders of political positions such as governors, ministers, directors, and even administrative post chiefs. These ethical principles and standards are enforced by the Constitutional Council. Law No. 7/1998, which requires civil servants to file a statement detailing the assets they possess when taking up and leaving a public sector position. The Constitutional Council stores such information, and the State Administrative General Inspectorate (IGAE) oversees fulfillment of that requirement. In principle, the presentation of the statement is an ex ante condition for holding a civil service position, but there is no evidence that the requirement is actually enforced when a civil servant leaves his or her post. There is also a Statute of Public

Sector Managers which applies to the State's representatives on Boards of Directors of private enterprises in which the State participates.

56. At present there is not any law regulating public employment, but admission to the civil service is generally competitive. 4.2.2

The competitive selection process must be announced in publicly available newspapers on at least five occasions within a 30-day period. The process can involve a written test or merely require an interview, at the discretion of the public entity holding the contest. The selection jury is also appointed by the line ministry holding the contest, with the only requirement for membership being that jurors must hold a higher-level post than the position being filled. Jurors must plead disqualification if they have a connection with any of the candidates. Nonetheless, there is no restriction regarding the degree of relationship the candidates may have with civil servants already working in the institution. During the three years for which the selection process is valid, the entity may not hold new contests for the same functions if there are qualified candidates available from the previous contest. Candidates who consider themselves unfairly treated may appeal to the ministry holding the selection process, to the IGAE, or even directly to the TA. There are also public employees who are contracted for specific activities, such as teachers, who are subject to the public salary scale but are governed by the private sector labor law. Civil servants can also be hired to perform such specific activities in conjunction with their public positions, provided they obtain authorization from a higher-ranking official.

57. Rules and procedures on government procurement are clear, well-known, and in line with best international practices, but it is too early to assess their practical application. 4.2.3

The new regulation²³ and the corresponding procedural manual provide a sound basis for ensuring open and competitive procurement practices. Efforts are also being made to enhance the transparency of public procurement by publishing information on the number of open and awarded tenders, as well as current legislation and contract models, on the public tenders portal (<http://www.concursospublicos.gov.mz>). It is still too soon to evaluate the implementation of this new procurement legislation. The government's main challenge is to reduce the number of cases in which the legislation is not enforced, something that has often happened in the past, as pointed out by the TA in its opinions on the CGE for 2004 and 2005. With the goal of ensuring a sound implementation of this new legal framework, the government is working to disseminate the new legislation on procurement and to train public officials.

²³ Regulation on Contracting for Public Works, Goods Supply and the Provision of Services to the State, Decree no. 45/2005, of December 13. This regulation is applicable to all State bodies and institutions, municipalities and public enterprises, with respect to goods supply, service provision, and public works contracting, including consulting services and concessions.

58. In some occasions, acquisitions and sales of public rights, such as through concessions, are neither conducted openly nor identified separately in the budget and fiscal reports. 4.2.4

For example, the CGEs for 2004 and 2005 showed that revenues obtained from the sale of State holdings and dividends belonging to the State in publicly-owned corporations and private enterprises were not recorded in the OE; and that the funds used by the IGEPE in providing financial support to enterprises, and other commitments assumed by the government, had not been recorded as State expenditures.

59. Despite a number of recent improvements, internal controls and audits are not yet fully effective. 4.2.5

In principle, the expansion and full rollout of e-SISTAFE would make it possible to effectively monitor expenditure commitments (*cabimentação*) and ensure effective internal controls. Nonetheless, at present the e-SISTAFE's internal controls have limited reach, because only about half of goods and service operations are executed through the e-SISTAFE direct budget execution. The internal control bodies in line ministries are either deficient or nonexistent. The General Finance Inspectorate (IGF), which is attached to the MF, acts at the national level with support from two regional delegations. The IGF focuses on conducting property and financial controls of State institutions, including those with financial autonomy.²⁴ Its planning instrument is the three-year strategic plan approved by the MF and supported by annual work plans. IGF performance is evaluated in quarterly, semiannual, and annual reports, published by the fifth day of the month following that to which the report refers. Those reports do not contain indicators but highlight areas needing greater attention. In 2006, a total of 206 audits were planned, but just 102 were performed owing to financial constraints and human resources difficulties (the IGF currently has 134 staff, including 86 inspectors; only 44 inspectors have higher-level training). In 2007, the aim is to cover 35 percent of districts and 20 percent of local authorities.²⁵ The IGF does not prepare an opinion on the CGE. Coordination and articulation between the IGF and the TA is still incipient, but since July 2006 information has been regularly exchanged following creation of an auditors' forum. In 2007, agreement was reached as to the districts that each would inspect, and for fiscal 2008 prior IGF audits are programmed in bodies that will subsequently be inspected by the TA.

²⁴ Under the SISTAFE reforms, the IGF would function as the supervision body for the internal control subsystem, while line ministries would need to create their own financial inspectorates. As internal oversight agent in the expenditure execution process, the IGF would relate directly with the DNO and the National Directorate of Public Accounting (DNCP). IGF intervention occurs only when inspecting annual execution of those institutions (which is done ex post).

²⁵ The reform of the Law of Finances and Assets of Municipalities no. 11/1997, which was under discussion at the Assembly at the time of the preparation of this fiscal ROSC (paragraph 11), requires each local authority to be audited at least twice every five years. Law No. 11/1997 also establishes (Article 24) that *autarquias* will also be subject to a system of financial control implemented through performance audits, without specifying who will perform them.

60. Tax legislation envisages mechanisms for internal control and for keeping the ATM accountable. 4.2.6

The ATM has a strategic plan for 2006–10 supported by an annual work plan that details the activities that the ATM will conduct and the performance indicators that will be used to monitor its performance. The ATM is required to prepare execution reports on these two plans, which are both submitted to the MF and presented at the “National Fiscal Policy Execution Seminar,” to which representatives from the private sector and affected line ministries are invited. The first work plan, corresponding to 2007, has already been prepared and approved by the ATM Board of Directors, and an evaluation will be made next year.

61. ATM staff, although not entirely independent of the MF, are subject to a special professional and disciplinary regime. 4.2.6

The ATM Staff Statute (*Diploma* no. 152/2005 of August 2), which creates a special institutional career structure, establishes that ATM staff are recruited under an open and competitive regime; they must (i) act with absolute neutrality and impartiality; (ii) work for the ATM exclusively; (iii) avoid involvement in resolving fiscal and tax disputes concerning their family; and (iv) undergo a semiannual performance appraisal. Staff are also entitled to legal assistance and representation from a hired ATM lawyer regarding legal problems that may be related to the service. At the present time, the ATM is carrying out a census of its staff (roughly 2,826 employees), as part of a downsizing and restructuring process, and is too early to evaluate the effectiveness of this special regime.

External control

62. The external audit function is performed by the TA, which is an entity independent of the executive, and has the mandate of auditing all public sector activities. 4.3.1

According to the Constitution of the Republic, the external audit function is performed by the TA, which has jurisdiction to review the CGE and perform successive, concomitant, and ex post external audits on all public sector entities as well as private organizations that receive public funds.²⁶ The TA forms part of the judicial system; its chairperson and advisory judges are appointed by the President of the Republic and are subject to a regime of incompatibilities in the exercise of their functions. Unlike in other countries, the TA in Mozambique, in addition to its traditional competencies, is also responsible for resolving administrative, fiscal and customs disputes, and for conducting ex ante controls of the

²⁶ The legal framework governing the Administrative Tribunal consists of the Constitution of the Republic of Mozambique (Chapter III, Section III), Law No. 5/1992 of May 6, on the Administrative Tribunal; Law No. 13/1997 of July 10, on the legal regime governing prior inspection of the public expenditure of the Administrative Tribunal; Law No. 14/1997 on the legal regime governing successive inspection of public expenditures; Law No. 15/1997 on the basic principles for preparing, managing, executing, controlling and inspecting the OE and CGE; Law No. 16/1997 on the organization, operation and process relating to the third section of the TA, and the SISTAFE Law.

legality of public acts and contracts. The fact that the TA verifies *ex ante* all public-sector procurement processes and also audits *ex post* the processes that follow generates a clear conflict of interest, and also causes delays in the execution of public expenditure.²⁷ The TA and other audit agencies must notify the Central Anti-Corruption Office (GCCC), the Office of the Attorney General, and the Prosecutor General of the Republic of any irregularities they detects. This notification of the GCCC does not always happen in practice, however, because the GCCC does not yet have well-defined functions and responsibilities.

63. In recent years, the TA has improved the quality of its analysis, submitting increasingly professional, independent, and timely opinions; but the need remains to strengthen its technical and human capacities. 4.3.1

According to the SISTAFE Law, the TA must provide an assessment of the CGE before November 30. Numerous budget execution irregularities were detected in the opinions issued by the TA on the CGEs for 2004 and 2005. These included the signing of construction contracts, goods and service procurements, and staff hiring without competitive selection, without TA approval, or with private enterprises that are not legally registered or whose tax situation is not up to date; and expenditures incurred without the appropriate supporting documentation or budgetary appropriation, expenditures incorrectly classified or registered, or lacking the anticorruption clause established in the law.²⁸ In the case of asset management, the TA also detected discrepancies between inventory values and expenditures actually incurred. The TA has also pointed out that in some occasions the DNT has authorized some public institutions to sign loans that were not supported by reliable repayment guarantees. However, the opinions issued by the TA are still narrow and non-exhaustive due to the lack of appropriate human and technical resources. It is estimated that the TA only verifies 25 percent of all government accounts, whereas the international recommendation is 75 percent. Areas that warrant greater attention include the accounts of provincial and district governments and local authorities.

64. The reports prepared by the TA are in the public domain and discussed by the legislature; but neither the AR nor the judiciary systematically follows up on irregularities detected. 4.3.2

The TA reports evaluating the CGE are sent to the Assembly for evaluation by the Planning and Budget Commission. These reports are also published and released to the public at large

²⁷ The average response time is 20–30 days for staff contracts, but just a few days in the case of investment projects. This is within the maximum legal limit of 30 days, despite the existence of a right to extend the response period to 90 days under a tacit approval regime.

²⁸ Law No. 6/2004 of June 17, on Complementary Mechanisms for Combating Corruption. This law establishes preventive mechanisms such as the requirement for public entities to systematically make public declarations of property, adequately justify their administrative acts so as to reduce discretionary behavior, and include an anticorruption clause in all contracts of public bodies, specifying that the contracting parties undertake not to offer or receive advantages from third parties or between each other. The law also contains sanctioning mechanisms which include criminalization of bribery or privileged use of information, and the obligation on audit bodies to report any irregularities encountered.

on the TA Internet site (www.ta.gov.mz), where, however, it is only possible to find a few extracts of the CGE itself. It would seem that the TA has thus far targeted its efforts to preparing audits and opinions of an “educational” type, but does not take any action to ensure accountability for irregular practices detected.

65. There is no independent or external evaluation made of the macroeconomic assumptions underlying the OE. 4.3.3

The private sector does not issue an opinion on these assumptions, probably because the Mozambican private sector is a consumer of macroeconomic data produced by the government and has not yet developed capacity to challenge government projections.

66. The legal framework supporting the statistical system is adequate; the National Institute of Statistics (INE) enjoys technical autonomy, but it does not have the human and financial resources needed to appropriately fulfill its tasks. 4.3.4

The legal framework governing the statistics system in Mozambique²⁹ gives the INE authority to conduct surveys, in which population must participate within pre-established deadlines, and take all steps needed for statistics production (<http://www.ine.gov.mz>). The law requires the INE to uphold principles of technical autonomy, neutrality, reliability, and transparency, acting in coordination with other statistics producers such as the BM and line ministries. The INE also has sanctioning power in the event of a refusal to supply information. In practice, the INE lacks the technical, human, and financial capacity needed to exercise all of its competencies appropriately.

III. IMF STAFF COMMENTARY

67. Since the fiscal ROSC conducted in 2001, Mozambique has made significant progress on improving fiscal transparency. There has also been progress with respect to the updates conducted in 2002 and 2004 and the PEFA assessment conducted in 2004. This has been the result of a wide-ranging group of substantive legislative reforms, which are consistent with good international practices. Greater fiscal transparency reflects the introduction of new instruments and tools, as well as major institutional and organizational changes. The increase in fiscal transparency has also reflected improvements in procedures and processes, greater clarity in the fiscal data produced, and better reporting.

68. The most important legislative reforms introduced over the last few years include: (i) a modern and wide-ranging legal framework for taxation; (ii) a well-designed legal framework for public finance management that contains sound budgetary rules (the SISTAFE Law); (iii) the new regulation on government procurement and bidding processes containing clear and widely known rules; (iv) laws on the State administrative bodies deconcentrated at the local level, regulating the functions and structure of such bodies; (v) laws for the creation of regulatory agencies for service providers; (vi) simplification of

²⁹ Law No. 7/1996 of July 5, establishing bases for the National Statistics System.

bureaucratic procedures; (vii) introduction of an anticorruption law in line with good international practices; and (viii) a review of the General Civil Servants' Statute.

69. These legislative reforms have resulted in the introduction of new instruments and institutional arrangements for public financial management. Mozambique now has the following new instruments in place: (i) a relatively well-structured mechanism for planning and budgeting, and also for coordinating donor activities around the preparation of the poverty reduction plan (PARPA), PES, CFMP, and OE; (ii) an integrated information technology system to help enforce the new budgetary legislation, the e-SISTAFE and the introduction of the e-CUT; (iii) a sound system of budgetary classifications that is generally compatible with good international practices and with the PBCP; and, (iv) one-stop shops and the launch of an electronic platform to conduct administrative procedures and dissemination of government information (the e-government and the government's Internet portal). Mozambique also has the following new institutional arrangements: (i) the ATM, to strengthen tax administration; (ii) the Ministry of Public Function (*Ministério da Função Pública*) to strengthen inspection and promote professional conduct in the civil service; (iii) clearer relations between the BM and the MF, through the transferring of the external public debt from the BM's balance sheet to government accounts, and recapitalization of the BM; and, (iv) the Poverty Observatory (recently renamed as Development Observatory) and other forums of public consultation on public policies and legislative and regulatory changes.

70. The new procedures and processes, and improvements in reporting and accounting mechanisms include the following: (i) expansion of the scope of the OE by including a larger number and volume of donor-funded expenditures and own revenues of the autonomous State institutions; (ii) improvements in the quality of budget estimates, thanks to greater predictability in donor funds, enhanced macrofiscal projections, and well-established practice for developing a CFMP; (iii) improvements in the quality and speed of the budgetary execution reports and the CGE thanks to the e-SISTAFE; and (iv) a higher quality of CGE analysis conducted by the TA.

71. Nonetheless, there are still many areas in which Mozambique diverges from the good practices set out in the Fund's Code of Good Practices on Fiscal Transparency. In a few cases these weaknesses stem from the lack of a regulatory framework; but, as analyzed below, they also reflect the incomplete application of new laws, in many cases because the latter are still recent and they are still in the first stages of implementation. Mozambique's main weaknesses in fiscal transparency could be classified in four thematic areas, as presented below:

► **In terms of the clarity in the definition of functions and responsibilities, main weaknesses in fiscal transparency relate to the following areas:**

- *The lack of a regulatory framework for the autonomous State institutions*, which implies a lack of clarity around the (i) scope of the autonomy over administrative, financial, and asset management that such institutions can enjoy; and (ii) instruments at the disposal of the treasury to control and monitor those institutions.

- *The legal framework governing the public enterprise sector is neither clear nor complete.* It does not specify the scope of the State's control over public enterprises, nor does it require public enterprises to sign a program contract; and it does not provide the treasury with instruments to require public enterprises to transfer dividends or make payments from *acordos de retrocessão*.
- *Moreover, there is no framework for controlling and monitoring the operations of the recently created publicly owned corporations.* In addition, the regulatory framework for privatizations is disperse and obsolete, since it still reflects the large-scale privatization process implemented in Mozambique in the 1990s, and it is not in tune with the country's new reality.
- *The legal framework on the State's administrative bodies deconcentrated at the local level is complex and poorly known,* which gives rise to confusion and inefficiencies and causes conflicts among jurisdictions.
- *Relations between the BM and the MF in relation to operating the CUT are unclear.* There is still no agreement on the return (interest) that the BM should pay on CUT balances, nor on the commission that the MF should pay the BM for financial services provided.
- *Administrative procedures, and especially tax payment processes, are still very costly.* This reflects the complexity of administrative procedures and the legal framework governing the tax system, under which there still exists ample room for discretion. Also, it reflects the lack of appropriate human and technical human resources in the Mozambican public administration in general, and the tax administration in particular.

► **With regard to openness in the preparation, execution, and presentation of budgetary accounts, the main weaknesses relate to the following:**

- *There is no formal framework for specifying the division of responsibilities between the MF (DNO) and MPD (DNP) in preparing the budget.* The current informal arrangements sometimes give rise to confusion, particularly regarding the relationships with line ministries at various levels (national, provincial and district). In addition, the processes and responsibilities involved in preparing the CFMP, and their approval by the Council of Ministers, are not supported by a formal legal framework or a specific timetable.
- *Consistency between the various and numerous planning and budgeting instruments (PARPA, PES, CFMP, sector plans, OE, etc.) is still incomplete.* Moreover, the OE and PES do not provide any explanation of the impact of new policies, nor an analysis of the sensitivity or sustainability of fiscal policy.
- *The coverage of the OE is still incomplete.* Despite recent efforts, there are still operations or public entities that are outside the OE, e.g., certain donor funds, the own revenues of most autonomous State institutions, and the whole operations of three autonomous State institutions (e.g., INSS). State revenues arising from natural resource operations are not identified entirely transparently in the OE.
- *The information and control on budget execution phases are not yet fully satisfactory, reflecting the incomplete rollout of the e-SISTAFE, the still limited use of the system by*

the spending units in which it is available, and a failure to develop several of its modules. Only a small proportion of public expenditures are executed directly through the e-SISTAFE's budgetary execution module, and certain budgetary operations are implemented outside the CUT. In addition, the e-SISTAFE still does not have modules for revenue, payroll, debt, asset management, and internal control.

- *Accounting records for State operations are incomplete*, no general government balance sheet is produced, and State financial assets and liabilities are not consolidated.

► **On public access to information**

- *The scope of the quarterly reports (REOE) and semiannual reports (Balanço do PES) is limited.* Moreover, the timeliness of the information contained in these reports is impaired by the fact that data on a large number of operations is entered ex post and outside the e-SISTAFE. Reports also do not contain information on the budgetary amendments made by the government during the fiscal year within the margins authorized by the AR. No information is provided on the use of the "unallocated contingency fund" (*dotação orçamental*), in clear contradiction to the principle of publicity established by the SISTAFE Law.
- *Neither the OE nor the CGE contain an estimate or even an identification of the quasifiscal activities carried out by public enterprises, along with their contingent liabilities and fiscal risks.* The 2006 CGE includes an estimate of tax exemptions for the first time, but the calculation methodology has not been made explicit, so it is hard to evaluate.
- *No consolidated position is calculated for public enterprises, publicly owned corporations, and the State shareholdings in the private sector.* Nor is there any calculation of the joint fiscal and financial position of local authorities.
- *There are still no websites for the MF and MPD.* The two ministries still share the Internet site of the former MPFs. The information available on that site is usually out of date and incomplete.

► **Lastly, in relation to guarantees of integrity**

- *There is no comprehensive, efficient, and secure account reconciliation process*, since this process is still being done manually.
- *Internal controls are still deficient*, because the e-SISTAFE is not yet fully operational. IGF internal audit tasks are still very limited. The IGF is not yet connected to the e-SISTAFE and its human and technical capacities need to be improved.
- *External controls by the TA also are still unsatisfactory*, reflecting the TA's lack of human and technical resources and the absence of a connection of the TA with the e-SISTAFE. Also, the effectiveness of external controls is hampered by the Assembly's tardy consideration of the TA opinion on the CGE. Furthermore, the TA's involvement in the prior inspection of public contracts and hiring seems to delay budget execution without adding any additional safeguard.

- *There is also a lack of inter-institutional communication between the TA and IGF, which need to coordinate their work.*

72. This report makes a number of recommendations to improve fiscal transparency.

These can be classified as: *short-term* measures that can be introduced quickly; and *medium- and long-term* measures, which would require legislative amendments and a major strengthening of technical and human capacities.

In the short run

- *Increase the dissemination of fiscal information* by promoting the use of low-cost electronic media such as public entity websites and fostering a culture of timely updating and reporting.
- *Complete the institutional arrangement between the BM and MF in relation to CUT remuneration and conditions*, and incorporate the costs of monetary policy into the OE.
- *Make explicit the correlation between planning and budget instruments*, and possibly attempt to consolidate them in fewer documents.
- *Adopt a legal framework to provide a formal support to the current distribution of responsibilities between the MF and the MPD as regards budget formulation*. The legal framework could also formalize the calendar and distribution of tasks for the elaboration of the CFMP.
- *Improve the content of budget execution reports*, such as the REOE and the *Balanço do PES*, by broadening their scope, including explanations of budget amendments and an analysis of budget outcomes, with explanations of any divergences between execution and initial appropriations.
- *Continue with the rollout of the e-SISTAFE to all of the State's bodies*, in particular the autonomous State institutions, and encourage the use of the direct execution function, including for externally financed projects that are increasingly being brought on-CUT. This will help strengthen the reporting and controls of budget execution.

In the medium term

- *Continue with the rollout of the e-SISTAFE to the districts and local authorities*, which will help strengthen the reporting and controls of budget execution at the local level; in addition, *continue with the development of additional modules* (tax revenue collection, payroll, property, multicurrency CUT, etc.), and allow the General Inspectorate of Finance (IGF) and the TA full access to the system for consultation purposes.
- *Continue with ongoing efforts to expand the coverage of the budget*, by including all own revenues of the autonomous State institutions and donor-funded spending programs *and improve the content of the budget documents*, by strengthening the quality of budget estimates, explaining new government policies, including a sensitivity and sustainability analysis of the macrofiscal framework, and identifying the use of natural resources.
- *Elaborate and disseminate the consolidated positions of public enterprises, autonomous State institutions, and local governments* and attach this information, as well some

aggregate tables containing the consolidated position of the general government, to the budget.

- *Develop methodologies for estimating the quasifiscal activities carried out by public enterprises, evaluating contingent liabilities and fiscal risks*, particularly in relation to public enterprises, publicly-owned corporations, and state shareholdings in private enterprises. In addition, *develop methodologies to estimate tax exemptions and benefits* with a view to including such information systematically in the OE and CGE.
- *Strengthen the regulatory framework governing the public enterprise sector* by reforming the law on public enterprises and preparing a law on autonomous State institutions.
- *Clarify responsibilities and competencies at the various levels of government*, and develop a medium-term strategy of decentralization and deconcentration.
- *Continue with the ongoing program of improving tax administration* by strengthening the human and technical resources of the ATM and supporting the development of the tax collection module (the *e-Tributação*).

In the long run

- *Adopt program budgeting and thus make it easier for the programs contained in planning instruments to be duly reflected in the OE*. The migration from the current to the new system will require the adoption of new technical skills and a new management model, for which purpose it will be necessary to hire external consulting services and training.
- *Secure the technical and financial sustainability of the e-SISTAFE* by raising the proportion of local technical staff in relation to foreign consultants, introducing mechanisms for retaining the technical staff of the *Centro de Processamento de Dados*, and guaranteeing the stability of budgetary resources allocated to UTRAFE.
- *Make transactions related to resource revenues and PPPs more transparent* by publishing the arrangements and contracts with the private enterprises involved, addressing the remaining uncertainty in the tax regime of the resources sector, clearly identifying in the budget documents all resource revenue and the State's participation in the resource sector, and strengthening the role of the MF in the final approval of any contractual arrangement that could have budget implications.
- *Strengthen the capacity of the TA and the IGF* to perform their external and internal control responsibilities, respectively. This should entail training programs and workshops, including on the use of the e-SISTAFE, in order to allow these institutions to improve the implementation of their control functions. The strengthening of internal controls also should eventually permit removal of the prior inspection by the TA of public contracts and hiring of personal.

APPENDIX I. SUMMARY TABLES
Table 1. Mozambique: A Summary Assessment of Practices

	Principles and Practices	Summary Assessments	Comments
		Clarity of Roles and Responsibilities	
		<i>Largely Not Observed</i>	
1.1.	The government sector should be distinguished from the rest of the public sector and from the rest of the economy;		
1.1.1	The structure and functions of government should be clear.	The government is clearly distinguished from the rest of economic sectors. However, the budget documents only partially cover the central government.	Some of the autonomous State institutions that execute non-commercial operations and donor-funded spending are not included in the budget.
1.1.2	The fiscal powers of the executive, legislative, and judicial branches of government should be well-defined.	The fiscal functions of the executive, legislature, and judiciary are clearly defined by law.	The Constitution of the Republic of Mozambique articles 179 and 183.
1.1.3	The responsibilities of different levels of government, and the relationships between them, should be clearly specified.	The legal framework governing relations between the different levels of government is highly complex, imprecise, and not well-known. Transfers to local authorities are not based on transparent and rule-based formula.	At the time of the preparation of this fiscal ROSC, there was a draft Law on the Finance and Assets of Municipalities under discussion at the AR. The draft law aims at (i) introducing a set of transparent and rule-based formula for the transfers to local authorities and (ii) reconciling local authority legislation with the SISTAFE and LGT.
1.1.4	Relationships between the government and public corporations should be based on clear arrangements.	The legal framework governing the public enterprise sector is neither clear nor complete. The information available on quasifiscal activities undertaken by the public enterprise sector, which could be significant, is scant.	
1.1.5	Government relationships with the private sector should be conducted in an open manner, following clear rules and procedures.	Despite recent improvements, the laws and processes that regulate the nonfinancial private sector are not clear and open, which results in high compliance costs.	
1.2.	There should be a clear and open legal, regulatory, and administrative framework for fiscal management.	<i>Largely Observed</i>	
1.2.1	The collection, commitment, and use of public funds should be governed by comprehensive budget, tax, and other public finance laws, regulations, and administrative procedures.	The legal fiscal and budget framework (the SISTAFE law) is clearly defined and consistent with good international practices; however, some aspects need to be clarified.	There is a need to clarify the provisions on the budgetary amendments, the use of the unallocated contingency fund, and the budget coverage.
1.2.2	Laws and regulations related to the collection of tax and non-tax revenues, and the criteria guiding administrative discretion in their application, should be accessible, clear, and understandable. Appeals of tax or non-tax obligations should be considered in a timely manner.	The legal framework for the tax system is modern, comprehensive, and generally broadly disseminated, although a number of clarifications are needed. Tax administration procedures are clearly defined in the law, but their effectiveness and transparency are limited by the lack of appropriate technical and human capacity at the ATM.	The Local Authority Tax Code needs to be brought in line with the LGT. The recently enacted tax legislation on the oil and mining sectors still grants the Government a large degree of discretion in defining the key elements of oil production taxes. The taxpayer database is not updated regularly, there is no banking-based tax collection network, and the skills of tax administrators are still weak.
1.2.3	There should be sufficient time for consultation about proposed laws and regulatory changes and, where feasible, broader policy changes.	There exist some relatively well-established public consultation mechanisms, particularly on draft laws, amendments to the regulatory framework, and changes on policy orientation.	Examples of current public consultation mechanisms include the Taxation Council and the Poverty/Development Observatory.
1.2.4	Contractual arrangements between the government and public or private entities, including resource companies and operators of government concessions, should be clear and publicly accessible.	Contractual arrangements between the government and public entities or private sector bodies are not published.	Contracts related to "mega-projects" and public-private partnerships are difficult to gain access to.

	Principles and Practices	Summary Assessments	Comments
1.2.5	Government liability and asset management, including the granting of rights to use or exploit public assets, should have an explicit legal basis.	The legal and institutional framework for the management of the State's participation in private sector enterprises and privatization is obsolete and widely dispersed. The legislation for granting concessions for the exploration of natural resources is clear but a few aspects still need to be strengthened.	The framework for the privatization and management of the State's participation in the private sector has not been updated and adjusted to the new economic reality of Mozambique. The legislation on the concessions in the oil and mining sectors does not specifically limit the State's liabilities to future production in the case of projects that prove unsuccessful.
Open Budget Process			
2.1.	Budget preparation should follow an established timetable and be guided by well-defined macroeconomic and fiscal policy objectives.	<i>Largely Observed</i>	
2.1.1	A budget calendar should be specified and adhered to. Adequate time should be allowed for the draft budget to be considered by the legislature.	The budget calendar is established in the SISTAFE Law and is generally respected. The 2 ½-month period for the AR to analyze the budget proposal is adequate.	However, the calendar for the development of the CFMP (the <i>Cenário Fiscal a Médio Prazo</i> (CFMP)) is not established in the legal framework. This situation has led in most years to substantial delays, which has also compromised the timeliness of the formulation of the budget proposal. In the majority of recent years, the work of analyzing and voting the budget proposal at the Assembly has been somewhat compressed, resulting in a budget that was approved a few days after the legal deadline.
2.1.2 (a)	The annual budget should be realistic, and should be prepared and presented within a comprehensive medium-term macroeconomic and fiscal policy framework.	The budget estimates and the underlying macroeconomic assumptions are clearly presented in the budget documents, although the correlation between them is not made explicit.	
2.1.2 (b)	Fiscal targets and any fiscal rules should be clearly stated and explained.	Mozambique's fiscal policy is guided by the fiscal targets and principles established in the PRSP's objectives for the execution of priority sectors and the fiscal targets set in the CFMP.	Mozambique fiscal targets are also reflected in the IMF-supported Policy Support Instrument and translated into targets for the Net Credit to the Government.
2.1.3	A description of major expenditure and revenue measures, and their contribution to policy objectives, should be provided. Estimates should also be provided of their current and future budgetary impact and their broader economic implications.	Estimates of new revenue and expenditure initiatives and the recurrent costs of government policies are not clearly identified in the budget documents.	The budget documents present all government actions, although without a different treatment for the new and ongoing actions. This is partially the result of the use of an input-based budget instead of a program-based result-oriented budget. The government is planning to gradually adopt a programmatic budget classification as from the 2008 OE on a pilot basis building on certain programs already existing in some line ministries.
2.1.4	The budget documentation should include an assessment of fiscal sustainability. The main assumptions about economic developments and policies should be realistic and clearly specified, and sensitivity analysis should be presented.	The budget documents do not provide either a detailed analysis of the sustainability of the fiscal policy or a sensitivity analysis in relation to the main economic and political assumptions.	On the positive side, budget documents establish that fiscal sustainability is one of the government's objectives. In addition, the 2006-09 PRSP takes a more medium-term-oriented view. It contains alternative macrofiscal scenarios, including higher-than-projected flows of external assistance and debt relief funds.
2.1.5	There should be clear mechanisms for the coordination and management of budgetary and extrabudgetary activities within the overall fiscal policy framework.	Mechanisms for coordination between the government and development partners in respect of externally funded off-budget activities have improved substantially in the last few years.	Most of the donor-funded spending is included in the budget. However, some donors still have doubts about the internal control and safeguards provided by the e-SISTAFE. These doubts lead some donors to keep donor-funded projects (around 50 percent) outside the budget execution circuit and the e-CUT. Donor coordination is facilitated by setting up a group of donors (the G-19) to discuss and agree on common issues.
2.2	There should be clear procedures for budget execution, monitoring, and reporting.	<i>Largely Not Observed</i>	

	Principles and Practices	Summary Assessments	Comments
2.2.1	The accounting system should provide a reliable basis for tracking revenues, commitments, payments, arrears, liabilities, and assets.	The accounting system and the government's computerized information system (the e-SISTAFE) provide a reliable basis for tracking revenues, commitments, payments, arrears, liabilities, and assets. However, the information and control on budget execution phases and recording of financial operations is not yet fully satisfactory, reflecting the incomplete rollout of the e-SISTAFE, the scant use of the system by the spending units in which it is available, and a failure to develop several of its modules.	As the e-SISTAFE has not yet been fully rolled out, most of expenses are still executed through the "indirect" budget execution functionality based on advances of funds, under which budget operations are recorded ex post, manually, in the system. As regards government's assets, there are no still accounting data, because only the flows arising from budget execution are currently recorded. Progress with the rollout of the e-SISTAFE and the development of additional modules will help address these issues over the medium term.
2.2.2	A timely midyear report on budget developments should be presented to the legislature. More frequent updates, which should be at least quarterly, should be published.	With the constraints mentioned in 2.2.1., the accounting system is capable of producing in-year reports (the REOE) on the execution of the State's budget.	In compliance with the SISTAFE Law, the government produces quarterly and mid-year budget execution reports, within 45 days after the end of the quarter and semester respectively.
2.2.3	Supplementary revenue and expenditure proposals during the fiscal year should be presented to the legislature in a manner consistent with the original budget presentation.	Information on the budget amendments introduced by the government during the fiscal year is scarce, and it is not presented in a way that can be easily reconciled with the original budget appropriations.	The REOE includes two columns, one for the original budget and another for the amended budget. However, these two columns are very difficult to reconcile, both with each other and with the column presenting the budget execution outcomes, as no explanation or clarification on the amendments is provided. The final fiscal accounts (the <i>Conta Geral do Estado</i> (CGE)) do not specify whether the budget column corresponds to the original or to the amended budget.
2.2.4	Audited final accounts and audit reports, including reconciliation with the approved budget, should be presented to the legislature and published within a year.	The final fiscal accounts audited by the supreme audit institution, the Administrative Tribunal (TA), are available 11 months after the end of the fiscal year, but the Assembly does not issue an opinion before the closure of the fiscal year and, thus, before the new budget is approved.	
Public Availability of Information			
3.1	The public should be provided with comprehensive information on past, current, and projected fiscal activity and on major fiscal risks.	<i>Largely Not Observed</i>	
3.1.1	The budget documentation, including the final accounts, and other published fiscal reports should cover all budgetary and extrabudgetary activities of the central government.	The timetable for the elaboration of the budget execution reports (45 days after the end of each quarter and semester), as announced by the government, is respected, and the reports are quickly released to the public. However, in some cases, the budget execution reports are not wide-ranging. Defense expenditure is fully declared in the budget.	The budget documents do not fully cover the fiscal operations of the central government, nor do they present consolidated data for the central and general governments. In particular, the budget execution reports do not include information on autonomous State institutions, nor on local authorities, nor on all donor-funded spending. The final fiscal accounts (the CGE) include some information on the general government entities (e.g., inventory of physical assets of municipalities) and is at present the more comprehensive budget document.
3.1.2	Information comparable to that in the annual budget should be provided for the outcomes of at least the two preceding fiscal years, together with forecasts and sensitivity analyses for the main budget aggregates for at least two years following the budget (as per the Medium Term Fiscal Framework)	The budget proposal contains information from the previous fiscal year, the current fiscal year—although preliminary, highly aggregate and incomplete—and two subsequent fiscal years. The budget proposal does not include any sensitivity analysis of the main budget aggregates for the following two fiscal years.	The information on the current fiscal year included in the budget proposal does not cover all State's revenue and expenditure, since the execution reports of many of donor-funded projects are not usually available at the time when the budget proposal needs to be submitted to the legislature.

	Principles and Practices	Summary Assessments	Comments
3.1.3	Statements describing the nature and fiscal significance of central government tax exemptions, contingent liabilities, and quasi-fiscal activities should be part of the budget documentation, together with an assessment of all other major fiscal risks.	The budget documents do not contain any information on the State's contingent liabilities, quasifiscal activities, and tax exemptions.	On the positive side, the 2006 CGE for the first time contained information on tax exemptions, with an estimation of tax benefits by type of tax together with a brief explanation. Nonetheless, the methodology for the calculation of the tax exemptions is not explained or even made explicit.
3.1.4	Receipts from all major revenue sources, including resource-related activities and foreign assistance, should be separately identified in the annual budget presentation.	The annual budget does not cover some of the autonomous State institutions, the operations of the local authorities, and all donor-funded spending.	Current plans are to gradually expand the coverage of the budget and the amount of donor-funded spending that is executed through the system.
3.1.5	The central government should publish information on the level and composition of its debt and financial assets, significant nondebt liabilities (including pension rights, guarantee exposure, and other contractual obligations), and natural resource assets.	The budget documents contain little information on public debt. In addition, the information published on contractual debt, which is controlled directly by the spending units and autonomous institutions of line ministries, and on pensions liabilities, is sparse and scattered.	The government plans to develop an e-debt module of the e-SISTAFE that will facilitate the integrated monitoring and reporting of the State's debt.
3.1.6	The budget documentation should report the fiscal position of subnational governments and the finances of public corporations.	The budget documents do not report on the fiscal position of subnational governments, i.e., the <i>autarquias</i> .	The CGE also does not contain the fiscal accounts of municipalities.
3.1.7	The government should publish a periodic report on long-term public finances.	No systematic analysis is made of long-term fiscal sustainability. No analysis of the impact of current policies or other sectoral events in the government's long-term fiscal balance is conducted.	Except for the analysis of debt sustainability in the context of debt relief initiatives, the long-term fiscal sustainability of fiscal policy is not assessed. The long-term projections of revenues for natural resources are not public. The social security fund (the INSS) does not produce any long-term actuarial estimates.
3.2	Fiscal information should be presented in a way that facilitates policy analysis and promotes accountability.	<i>Largely Not Observed</i>	
3.2.1	A clear and simple summary guide to the budget should be widely distributed at the time of the annual budget.	There is currently no publication summarizing the content of the budget in a simple language that can be understood by persons who are not familiar with budgetary and fiscal language.	However, the debates of the budget at the AR are broadcast by the local communications media (e.g., radio and TV stations).
3.2.2	Fiscal data should be reported on a gross basis, distinguishing revenue, expenditure, and financing, with expenditures classified by economic, functional, and administrative category.	The budget is an input budget in which expenditures are presented according to their institutional and economic classifications and revenues according to the source of funds. The functional classification of the budget estimates is not voted on by the Assembly, and therefore not legally binding. Fiscal data are recorded on a gross basis.	The economic and functional classifications are broadly in line with the IMF's Government Finance Statistics Manual of 1986. The institutional classifier is overly aggregate. Funding resources are classified according to their sources. However, there is still no program-based classification. The government plans to gradually adopt a programmatic classification as from the 2008 State budget.
3.2.3	The overall balance and gross debt of the general government, or their accrual equivalents, should be standard summary indicators of the government fiscal position. They should be supplemented, where appropriate, by other fiscal indicators, such as the primary balance, the public sector balance, and net debt.	The balance of the general government is not the indicator of the fiscal position presented in the budget documents. The budget documents do not include information on the gross debt of the general government.	The main fiscal indicator is the balance of the central government as covered in the State budget, which is monitored in the context of the IMF-supported PSI on the basis of the net credit to the government.
3.2.4	Results achieved relative to the objectives of major budget programs should be presented to the legislature annually.	The government has several planning instruments that set the objectives of government actions, but those instruments lack an efficient link with the State budget. Therefore, it is extremely difficult to assess the implementation of the policies and objectives outlined in the planning documents.	The government aims at introducing pilot program-budgeting schemes in several specific areas as early as the 2008 State budget, building on programs that already exist within some line ministries.
3.3	A commitment should be made to the timely publication of fiscal information.	<i>Largely Observed</i>	

	Principles and Practices	Summary Assessments	Comments
3.3.1	The timely publication of fiscal information should be a legal obligation of the government.	The SISTAFE Law mandates that within 45 days of the end of each semester, the government submits to the AR an assessment of the implementation of the Economic and Social Program. Although there is no legal deadline, the government also submits a budget execution report (the REOE) to the Assembly within 45 days of the end of each quarter. The SISTAFE law also establishes that three months after the end of the fiscal year, the MF has to develop the CGE, which is then simultaneously sent to the Assembly and to the supreme audit institution (the TA).	
3.3.2	Advance release calendars for fiscal information should be announced and adhered to.	The timetable for the release of fiscal information is established in the law or announced by the government. The timetable is broadly respected.	
Assurance of Integrity			
4.1	Fiscal data should meet accepted data quality standards.	<i>Largely Not Observed</i>	
4.1.1	Budget forecasts and updates should reflect recent revenue and expenditure trends, underlying macroeconomic developments, and well-defined policy commitments.	Aggregate budget data are relatively realistic, but at a disaggregated level it is difficult to draw the same conclusion, since the differences between budget estimates and actual outcomes are not published on a timely basis.	At present, there is no legal obligation for the government to report on the budgetary amendments introduced during the year or on the actual application of the unallocated contingency fund. Therefore, neither the REOE nor the CGE mentions or explains the discrepancies between the original and amended budget appropriations.
4.1.2	The annual budget and final accounts should indicate the accounting basis used in the compilation and presentation of fiscal data. Generally accepted accounting standards should be followed.	The budget documents and final fiscal accounts do not explicitly specify the accounting policy, apart from mentioning that the SISTAFE law—which established a sound set of accounting principles—needs to be respected	
4.1.3	Data in fiscal reports should be internally consistent and reconciled with relevant data from other sources. Major revisions to historical fiscal data and any changes to data classification should be explained.	The timely reconciliation of accounts is conducted only occasionally. When it is conducted, it is done manually or with a substantial delay, and without disclosing information on discrepancies. Fiscal information does not include any historical data; historical comparisons are difficult to make due to the recent implementation of the e-SISTAFE and increased coverage of the budget.	Progress with the rollout of the e-SISTAFE to all OE operations and entities, as well as the inclusion of all State operations in the Treasury Single Account (e-CUT), will help address these issues.
4.2	Fiscal activities should be subject to effective internal oversight and safeguards.	<i>Largely Observed</i>	
4.2.1	Ethical standards of behavior for public servants should be clear and well publicized.	The General Civil Servant Status sets forth the ethical principles applicable to civil servants in central, provincial, and district government bodies; civil servant contracts have to be previously authorized by the TA.	
4.2.2	Public sector employment procedures and conditions should be documented and accessible to interested parties.	At present there is not any law regulating public employment, but admission to the civil service is generally competitive.	
4.2.3	Procurement regulations, meeting international standards, should be accessible and observed in practice.	Rules and procedures on government procurement are clear, well-known, and in line with best international practices, but it is too early to assess their practical application.	The new regulation on procurement has been in effect only since mid-2006. The government is making efforts to ensure a sound implementation of the law. The government's main objective is to eliminate the cases in which the legislation is not enforced, which is something that has happened in the past.

	Principles and Practices	Summary Assessments	Comments
4.2.4	Purchases and sales of public assets should be undertaken in an open manner, and major transactions should be separately identified.	In some occasions, the acquisitions and sales of public rights, such as through concessions, are neither conducted openly nor identified separately in the budget and fiscal reports.	
4.2.5	Government activities and finances should be internally audited, and audit procedures should be open to review.	Despite a number of recent improvements, internal controls and audits are not yet fully effective.	This is the result of the weak human and technical capacity of the General Inspectorate of Finance (IGF). For instance, the IGF does not have access to the e-SISTAFE for information purposes.
4.2.6	The national revenue administration should be legally protected from political direction, ensure taxpayers' rights, and report regularly to the public on its activities.	Tax legislation envisages mechanisms for internal control and for keeping the ATM (ATM) accountable. In addition, ATM staff, although not entirely independent of the MF, are subject to a special disciplinary and professional regime.	
4.3	Fiscal information should be externally scrutinized.	<i>Largely Observed</i>	
4.3.1	Public finances and policies should be subject to scrutiny by a national audit body or an equivalent organization that is independent of the executive.	The external audit function is performed by the TA, which is an entity independent of the executive, and has the mandate of auditing all public sector activities.	In recent years, the TA has improved the quality of its analysis, submitting increasingly professional, independent, and timely opinions; but there is still a need to strengthen its technical and human capacities.
4.3.2	The national audit body or equivalent organization should submit all reports, including its annual report, to the legislature and publish them. Mechanisms should be in place to monitor follow-up actions.	The reports prepared by the TA are in the public domain and discussed by the legislature; but neither the AR nor the Judiciary System systematically follows up on the irregularities detected.	
4.3.3	Independent experts should be invited to assess fiscal forecasts, the macroeconomic forecasts on which they are based, and their underlying assumptions.	No independent or external evaluation of the macroeconomic assumptions underlying the State's budget is made.	
4.3.4	A national statistical body should be provided with the institutional independence to verify the quality of fiscal data.	The legal framework supporting the statistical system is adequate. The INE enjoys technical autonomy, but it does not have the human and technical resources to fulfill its duties appropriately.	

Table 2. Mozambique: Public Availability of Information—A Summary

	Budget and fiscal report element	Included in budget/report documents	Available to the public	Para. ref.	Code ref.
1.	Central Government (CG) budget estimates	Yes, although not in a comprehensive way; the State's budget does not cover all of the operations of autonomous State institutions (e.g., social security fund) and donor-funded spending programs.	Yes; the State's budget proposal and approved budget is published in the <i>Bulletin of the Republic</i> and on the Ministry of Finance's web site, although sometimes with a certain delay.	Paras. 2 (p. 5), 35 (p. 25), 49 (p. 31)	3.2.3, 1.1.1, 3.1.1, and 3.1.4
2.	CG Defense Expenditures	Yes; the defense expenditure is fully declared in the budget.	Yes; as part of the publication of the central government's budget documents.	Para. 37 (p. 27)	3.1.1
3.	CG EBFs (including special development funds, social security funds, resource revenue funds)	No; the CG Budget does not include the budgets of all autonomous State institutions (including the social security fund) nor a large part of donor-funded spending programs.	No	Paras. 2 (p. 5), 35 (p. 25), 49 (p. 31)	3.2.3, 1.1.1, 3.1.1, and 3.1.4
4.	CG Budget outturns	Yes; but not in a comprehensive way; the government elaborates a quarterly budget execution report (REOE), a mid-year budget execution report (the <i>Balanço do PES</i>), and the final fiscal accounts (the <i>Conta Geral do Estado</i> , (CGE)). These documents do not cover the execution of all of the donor-funded spending programs or budgets of all autonomous State institutions.	The REOE and the <i>Balanço do PES</i> are available within the 45 days after each quarter and semester respectively. The CGE is available within the three months after the end of the fiscal year.	Paras. 31 (p. 24), 34 (p. 25), 38 (p. 27) and Box 8 (p. 26).	2.2.2, 3.3.1, 3.3.2, 3.1.1, and 3.1.4.
5.	CG Budget forecasts	Yes; the budget proposal and the approved budget includes information—although preliminary, highly aggregated, and incomplete—on the previous fiscal year and the budget execution of the current fiscal year. It also includes projections for the two subsequent years.	Yes; budget forecasts are available to the public at the time of the publication of the budget proposal and the approved budget.	Para. 40 (p. 28)	3.1.2
6.	CG Contingent liabilities	No; the budget documents do not include an estimation or statement on the central government's contingent liabilities. The budget includes an "unallocated appropriation" (<i>dotação orçamental</i>), which is used to manage unexpected spending increases, but also to amend the budget appropriations during the year.	No	Para. 41 (p. 28)	3.1.3
7.	CG Tax exemptions	No; as a general rule, the budget documents do not include an estimation of the central government's tax exemptions. The CGE for 2006 for the first time included an estimation of tax exemptions, but it was too aggregated and the methodology used was not explained.	No; except for the initiative to include some information on tax exemptions in the 2006 CGE for the first time.	Para. 41 (p. 28)	3.1.3
8.	CG QFAs	No; the budget documents do not contain an estimation or statement on the QFAs, which could be significant, or fiscal risks. In general, the information available on QFAs undertaken by public enterprises is scant.	No	Paras. 5, (p. 8) and 41 (p. 28)	1.1.4 and 3.1.3
9.	Macroeconomic assumptions	Yes; the budget estimates and the underlying macroeconomic assumptions are clearly presented in the budget documents, although the correlation between them is not made explicit.	Yes; at the time that the budget proposal and the approved budget are made public.	Para. 23 (p. 20)	2.1.2
10.	Analysis of fiscal risks/sensitivity analysis	No; neither the budget proposal nor the approved budget nor the CGE provides a detailed analysis of the sustainability of the fiscal policy, or a sensitivity analysis in relation to the main economic and political assumptions.	No	Para. 27 (p.22)	2.14

	Budget and fiscal report element	Included in budget/report documents	Available to the public	Para. ref.	Code ref.
11.	CG Debt	No; the budget documents contain little information on public debt. The Treasury uses the Commonwealth IT system for monitoring of debt stocks and disbursements and for preparing managerial reports. These reports guide the BM in producing quarterly statistical data and are also incorporated into the CGE.	No	Paras 42 and 43 (p.28)	3.1.5 and 3.1.3
12.	CG Financial Assets	No; information on the government's financial assets is scarce and partial. The CGE does not include a State balance sheet or report on the values of the State's financial assets and liabilities.	No	Para. 45 (p. 29)	3.1.5
13.	Sustainability analysis	No; no systematic analysis is made of long-term fiscal sustainability. No analysis of the impact of current policies or other sectoral events in the government's fiscal balance in the long-run is conducted. Long-term projections of the social security fund are not conducted either.	No	Para. 46 (p. 29)	3.1.7 and 3.2.1
14.	General government budget estimates	No; the budget documents do not include information on the general government. The consolidated position of the general government is not elaborated.	No	Para 36. (p. 26)	3.1.1 and 3.1.4
15.	CG Monthly/quarterly reports on fiscal outturn	Yes, but not in a comprehensive way; the government develops a quarterly budget execution report (REOE), a mid-year budget execution report (the <i>Balanço do PES</i>), and the final fiscal accounts (the <i>Conta Geral do Estado</i> , or CGE). These documents do not cover the execution of all of the donor-funded spending programs or budgets of all autonomous State institutions.	Yes; The REOE and the <i>Balanço do PES</i> are available within 45 days after each quarter and semester respectively. The CGE is available within three months after the end of the fiscal year.	Paras. 31 (pag. 24), 34 (pag. 25), 38 (p. 27) and Box 8 (p. 26).	
16.	General government monthly/quarterly reports on fiscal outturn	No; no report on the execution of the general government is elaborated.	N/A	Para. 49 (p. 31)	3.4.1 and 3.2.3
17.	CG final accounts	Yes; the government develops the final fiscal accounts of the State (the CGE) within three months after the end of the fiscal year. The CGE is audited by the TA before November 30. The Assembly receives the TA's opinion on the CGE by November 30 and votes on it at the subsequent session in March.	Yes; the reports produced by the TA on the CGE are sent to the AR and made available on www.ta.gov.mz .	Paras. 34 (p.25) and 64 (p.37)	2.2.4 and 4.3.2
18.	Consolidated general government final accounts	No; according to the SISTAFE law the CGE should encompass 100 percent of revenues and expenditures from all entities included in the State's budget, including donor-funded operations, as well as including in annexes information on the accounts of all public entities (autonomous institutions, public enterprises, and local authorities). However, in practice, the CGE only covers a part of the central government operations.	No	Para 34 (p. 25)	2.2.4

Table 3. Mozambique: Reassessments of the Fiscal ROSC Conducted in 2001

Code Reference	Recommendation from 2001 ROSC	Action taken as of mid-2007
1.1.4	Prohibit the BM from financing the government's deficit or conducting quasifiscal operations.	The BM's organic law has not been amended. However, the authorization to extend funds to the government up to a maximum of 10 percent of ordinary revenues, is not used in practice. In addition, the BM does not carry out any quasifiscal activity (paragraph 7 of the ROSC).
1.1.3	Clarify the intergovernmental relations among different tiers of government and limit the legal power of municipalities to borrow.	The legal framework governing relations between the different levels of government continues to be highly complex, imprecise, and not well-known. This makes it difficult to identify the distribution of responsibilities among jurisdictions. The municipalities' power to borrow has not been limited beyond what is at present established in the law, i.e., to finance investment projects, manage unexpected increases in spending related to natural disasters, or undertake a fiscal consolidation process. However, municipalities' borrowing is in practice very small (paragraph 11 and Box 3 of the ROSC).
1.2.1	Introduce a comprehensive and well-designed budget legal framework.	A new public financial management law (the SISTAFE law), which is in line with best international practices, was adopted in 2002. Some aspects of the law, however, need to be further clarified (paragraph 12 of the ROSC).
1.1.2 and 3.1.3	Estimate and publish the impact of tax exemptions.	The budget documents do not contain an estimation of tax exemptions; for the first time the 2006 final fiscal accounts (the CGE) contain some information on them, but without any explanation or disclosure of the methodology used to compute them (paragraph 41 of the ROSC).
3.1.3 and 3.1.4	Expand the coverage of the budget by including the own revenues of autonomous State institutions and donor-funded spending.	Efforts have been made to include in the budget most of the own revenues of autonomous State institutions. Also, the coverage of donor-funded programs and projects in the budget has increased substantially. However, a large part of donor-funded expenditures are not executed through the government's budget execution system (see paragraph 36 of the ROSC).
3.1.2 and 2.1.2, 2.1.3, 2.1.4	Enhance the scope and quality of the information included in the annual budget documents.	The content of the draft annual budget sent to the AR has been expanded to include information on the macroeconomic assumptions underlying the budget estimates, medium-term fiscal policy objectives, and data on previous fiscal years, the current fiscal year, and two subsequent fiscal years (Paragraphs 25, 26, 27 and 40).
2.2.1,	Adopt a well-designed budget classification, an accounting system, a computerized financial management integrated system (the e-SISTAFE), and an electronic Treasury Single Account (e-CUT).	Well-designed budget classifications and chart of accounts have been adopted. In addition, a well-designed integrated financial management information system, the e-SISTAFE, has been adopted and is being rolled out gradually to all State's administrative bodies at the central, provincial and district levels and expanded with the implementation of additional modules. An e-CUT was also introduced in 2005. However, at present the coverage of the e-SISTAFE and the e-CUT is incomplete (i.e., most donor-funded spending is still executed outside the new systems). See paragraphs 30, 48, and 52 and Boxes 7 and 9 of the ROSC.
2.2.2	Introduce budget execution reports released according to a pre-established calendar.	The e-SISTAFE is capable of producing in-year reports on the execution of the budget. At present, quarterly and mid-year budget execution reports are developed within 45 days after the end of each quarter and semester. However, the coverage of the reports is still incomplete, as a large part of budget operations (i.e., donor-funded spending) is executed outside the system (paragraph 32 of the ROSC).
2.1.2	Develop the annual budget in the context of a CFMP consistent with the country's long-term development strategy and fiscal sustainability strategy.	The regulations of the SISTAFE Law mandate the development of a CFMP (the Cenário Fiscal de Médio Prazo (CFMP)) with the goal of providing a medium-term perspective to be used in developing the budget. The CFMP follows the objectives of the PRSP and the government's five-year plan; specifies the macroeconomic assumptions for the medium-term; and sets expenditure ceilings for all line ministries. However, at present there is no clear and pre-established schedule for the development of the CFMP, which on some occasions has compromised the timeliness of the annual

		budget. See paragraphs 23 and 24, and Box 5 and 6 of the ROSC.
2.2.4	Speed up the elaboration of the final fiscal accounts and their auditing by the TA.	In line with the SISTAFE Law, three months after the end of the fiscal year, the MF develops the Conta Geral do Estado, which is simultaneously sent to the TA and the AR. The TA issues an opinion on the CGE before November 30, which is voted on by the AR in March of the following year. The CGE still does not encompass 100 percent of the public sector operations and does not include the State's balance sheet. See paragraph 34 of the ROSC.
3.1.1 and 3.1.4	Consolidate public sector fiscal data (on the central government, municipalities, and public enterprises).	No progress has been made in this area. The budget documents do not cover the fiscal operations of the central government, nor do they present consolidated data on the central and general government. The consolidated fiscal positions of public enterprises and local authorities are not elaborated. See paragraph 36 of the ROSC.
4.1.3	Reconcile monetary and fiscal data on a timely basis.	Thanks to the e-CUT and e-SISTAFE some progress has been made on the reconciliation of fiscal and monetary accounts. However, the timely reconciliation is conducted only occasionally, and when it is conducted, it is done manually or with a substantial delay, and without disclosing information on discrepancies. See paragraph 53 of the ROSC.
4.2.3	Bring procurement legislation in line with best international practices.	New regulations on government procurement were adopted in 2006. The new set of rules is clear, well-known, and in line with best international practices. It is still too early to assess its practical application. See paragraph 57 of the ROSC.
4.3.1	Reexamine the ex ante review conducted by the TA.	The legal framework of the TA has not yet been modified in this direction. The strengthening of internal controls should eventually permit the removal of the prior inspection of public contracts and hiring of personnel by the TA. See paragraphs 62 and 63 of the ROSC.

APPENDIX II. SUMMARY OF MOZAMBIQUE'S TRANSPARENCY PRACTICES FOR RESOURCE REVENUE MANAGEMENT

Introduction

1. Mining and petroleum operations in Mozambique date back to the beginning of the last century. However, poor technology, lack of funds and major markets, and the ravages of the civil war hampered the development of those early exploration attempts. In recent years, a significant amount of foreign direct investment in sub-Saharan Africa has flowed to the mining and petroleum sectors in Mozambique.
2. Current mining production is still small (about 2 percent of GDP) and is concentrated on four minerals (gold, bauxite, heavy sands, and graphite). In addition, there exist very promising ongoing exploration projects for the production of coal. In the hydrocarbon sector, production is also modest at present. However, in the last few years the government has succeeded in attracting investment in the construction of gas field installations, processing facilities and a gas export pipeline and has secured important commitments by companies for petroleum exploration work. Over the medium term, Mozambique is likely to become a major producer of gas in the region.
3. To date, the government's resource revenues in Mozambique have been modest. Except for a few substantial payments in the mining sector (e.g., the entry concession fees for the exploration of Moatize coal mine), resources revenues have been limited to the still modest amounts paid by the one major gas project in petroleum production taxes (i.e., royalties) and corporate income tax. However, oil and gas revenues are set to increase significantly as the gas project is expanded, and also after operators have exhausted tax depreciation of their initial development costs.³⁰

Clarity of Roles and Responsibilities

The legal framework for resource revenues is broadly well-defined and licensing procedures well-established.

1.2.4/1.2.5

4. Mining and petroleum operations in Mozambique are governed by the Ministry of Mineral Resources (<http://www.mireme.gov.mz>.) in terms of the Mining Law No. 14/2002, Decree 28/2003, Petroleum Law No. 3/2001 and Decree No. 24/2004 (paragraph 21 of the fiscal ROSC). These pieces of legislation clearly state that the mineral and petroleum resources of the Republic of Mozambique are the property of the State. The State, through the Council of Ministers, has authority over mining and petroleum policy and regulations. It also has the power to grant the rights of reconnaissance, exploration, production, and transportation of mineral and petroleum resources through the granting of mining titles and permits, gas and petroleum concession contracts, and permits for the construction of gas pipelines. Mining titles and permits are granted on the basis of first-come, first-served priority, taking into account the date of the respective applications. As regards petroleum concession contracts, as a general rule they are awarded on the basis of a public tender. However, simultaneous or direct negotiations are

³⁰ Unlike the initial stages of gas and petroleum development in other countries, Mozambique does not have a large enough production volume of oil or gas liquids that private petroleum investors can recoup their initial costs for gas and oil developments.

allowed under certain circumstances regulated by the law. All applications for mining and hydrocarbon rights have to be addressed to the Ministry of Mineral Resources for processing by the National Directorate of Mines (DNM) and the National Institute for Petroleum (INP) respectively. (<http://www.dnm.gov.mz>. and <http://www.inp.gov.mz>).

5. According to the Mining and Petroleum Laws, Mozambique already has introduced model contracts for petroleum and mining operations, although they need some improvements and have not been made public yet. Such contracts are approved by the Council of Ministers and assessed by an Interministerial Technical Commission (see paragraph 21 of the fiscal ROSC). The economic terms set out in petroleum concession contracts consist of (i) the applicable tax regime, which is established in line with current legislation, with specific terms established by contract, most of which are biddable (however the criteria for the bids are not made public); (ii) a cost recovery and production sharing scheme; and (iii) a scheme for the State's participation in the rights of the concessionary.

The tax regime of the resource sectors is clearly stated and comprehensively covered in the law; recent reforms have considerably increased the transparency of the tax regime of the resource sectors, although some discretionary powers and uncertainties remain. *1.2.2/1.2.4*

6. At the onset of resource sector development, it was common practice to negotiate the tax regime applicable to specific contracts on a case-by-case basis (e.g., Pande-Temane contracts in the petroleum sector). This was a response to the power granted by the Petroleum and Mining Laws to the Council of Ministers to determine the tax regime for the resource sectors. The introduction of the 2003 Code of the Fiscal Benefits for Investments, which established two special regimes for the mining and petroleum sectors, helped address this situation somewhat, but a large scope for discretion still remained.

7. However, the recently enacted Laws No.11 and 12/2007 have substantially clarified the tax regime of the resource sectors. The laws establish that holders of mining and petroleum concession contracts are subject to the payment of (i) Mozambique's main State and municipal taxes; and (ii) a set of specific taxes, including mining and petroleum production taxes (royalties), which can be paid in cash or in kind at the option of the Council of Ministers, and surface taxes in the case of mining activities. However, there remains some room for discretionary power and uncertainty. First, the current tax legislation does not include a rule on ring fencing of petroleum operations for tax purposes, or any rules on depreciation and amortization for the petroleum sector, an omission that could open the door for the tax authority to exercise some discretionary power. Moreover, the provisions of law Nos. 11 and 12/2007 that regulate the pricing rules for determining the tax basis are not very clear, which could introduce a certain degree of uncertainty for taxpayers (paragraph 13 of the fiscal ROSC).³¹

8. In addition, the recently enacted law No. 13/2007 has considerably strengthened the transparency of the regime of tax exemptions applicable to the resource sectors. Law No.13/2007 (i) removes the power of the Council of Ministers, under the Petroleum and Mining Laws, to determine a special tax regime for the resource sectors, and the possibility of negotiating a special tax regime for each contract; (ii) eliminates the application of the 2003

³¹ Laws 11 and 12/2007 provide that the tax authority will start from the base of prices realized by the taxpayer, but may adjust these if they deviate from "normal market prices" negotiated between independent buyers and sellers. In determining these market prices, the tax authority will take into account of recorded local petroleum transactions, international benchmark prices, and any other information that may be relevant.

Code of the Fiscal Benefits for Investments on petroleum and mining activities; and (iii) limits the tax exemptions for the mining and petroleum sectors to customs duties (though not fees) and value added tax (VAT) on imports. This implies that the corporate income tax code now applies in full to mining and petroleum activities (paragraph 14 of the fiscal ROSC).

9. The fiscal stability arrangements in petroleum contracts are straightforward. They establish that in the case of a change in tax legislation that disadvantages the concessionaire or contractor, the parties should meet to endeavor to agree revisions to the relevant contract that restore the previous position.

The State's involvement in the resource sectors is as regulator and holder of either participating interests in some resource projects or equity participations in private companies.

1.1.4/1.1.5/1.2.4

10. Mozambique's resource sector is mostly operated by private sector companies. However, the Petroleum Law establishes that the State reserves to itself the right to participate in petroleum operations. This participation may occur during any phase of the petroleum operation or during the construction and operation of a gas or petroleum pipeline. At present, the government has either participating interests in some resource projects³² or equity participations in the private operators. These participations range from 10 to 25 percent and are present in almost all oil and gas exploration and production projects.

11. The State usually holds its equity participations in the oil and gas projects through public enterprises and publicly-owned corporations. Through the public enterprise ENH, or National Hydrocarbons Enterprise (ENH), the State holds equity participations in the exploration and production of gas and petroleum. In addition, the State participates in the hydrocarbon sector through two publicly-owned corporations: the Mozambique Hydrocarbon Company (CMH), which is involved in gas production (upstream) and the Mozambique Company for the Gas Pipeline (CMG), involved in gas transportation (pipeline). These corporations, CMH and CMG, are subsidiaries of ENH (80 percent) and the State (20 percent). In the mining sector, there is a public enterprise, the National Coal Company (CARBOMOC), which is involved in mining and exporting to Malawi small amounts of coal.

12. State participation is limited to management and there is no involvement at the operational level. In some cases, the State's equity participation in the gas and petroleum projects has been externally financed (e.g., through an IFC loan); and in other cases, it has been financed by the operators through the exploration phase, with reimbursement from future petroleum revenues. However, the legislation does not specifically establish that, if projects prove unsuccessful, the State's liability is limited to future production, and therefore does not generate other financial or capital liabilities to the State (paragraph 21 of the fiscal ROSC).

13. Commercial responsibilities are separated from policy and regulatory obligations. The regulatory authorities for mining and petroleum exploration and production are the DNM and the INP, respectively, both in the Ministry of Mineral Resources. These regulatory institutions are responsible for (i) promoting, negotiating, and granting mining and petroleum concession

³² The upstream portion of Pande-Temane projects is held as an unincorporated joint venture among CMH, the IFC, and a private operator, and is not itself a company.

contracts on behalf of the Government of Mozambique; (ii) monitoring and auditing petroleum operations to ensure they are conducted in line with the law.

Overall, the authority over resource revenue flows is clearly established in the law; however, the legal framework governing Mozambique’s public enterprise sector does not provide the government with the right tools to control the resource revenues generated by the State’s equity participations. 1.2.2

14. The MF, through the ATM, exercises fiscal authority over payment of taxes and royalties in the mining and petroleum sectors. The Treasury, on behalf of the Ministry of Mineral Resources, is responsible for the collection of other natural resource-related fees such as license fees and surface rentals. However, as in the case of other public enterprises and publicly-owned corporations, the existing legal framework governing the public enterprise sector does not provide the Treasury with effective instruments to control and monitor the operations of the resource sector public enterprises (i.e., ENH and CARBOMOC) and publicly-owned corporations (i.e., CMH and CMG) (paragraph 4 of the ROSC).

Current legislation on the resource sectors grants special treatment to certain private operators, which could give rise to quasi-fiscal activities (QFAs); information on these QFAs is not available. 1.1.4/1.1.5

15. The Petroleum Law establishes that Mozambican legal persons or foreign legal persons in business associations with Mozambican legal persons have a preferential right in the granting of petroleum blocks. In addition, the holders of petroleum contracts have to give priority to Mozambican products and services whenever they are competitive in terms of price and comparable in terms of quality and supply.

The recently introduced arrangements for the allocation of resource revenues to producing regions are fully integrated into the State’s budget procedures. 1.1.3

16. Resources revenues are managed and allocated by the central government according to the State budget. The recently enacted Laws No. 11 and 12/2007 establish (in Articles 19 and 11, respectively) that a percentage of resources revenues generated by mining and petroleum operations will be allocated to promoting the development of producing regions. These percentages will be established in the annual budget of each fiscal year.

Open Budget Process

Resource revenues are fully fungible with other resources of the State’s budget and spent through the standards procedures. 2.1.2/2.1.4/2.1.5

17. The organic budget law, the SISTAFE, does not establish special treatment for natural resources revenues. Therefore, as with other State revenues, all resource revenues must be included in the State budget, deposited in the Treasury Single Account (CUT), and executed through the standards appropriation process, and are subject to the same reporting and accounting requirement as other budget operations. Main resource revenues to date include the proceeds from the Mining/Petroleum Production Tax (Royalties) and Land Tax (*Impostos sobre a Produção Mineira/Petrolífera e de Superfície*), the own revenues (*Taxas de Prestação de*

Serviços) of the Mining Development Fund,³³ the corporate income tax revenue from mining and hydrocarbon companies, and the fees for the concession of mining titles and permits. This last item includes the annual withdrawals from the Concession Resources Fund for the Moatize mine, which is a savings fund composed of the entry concession fees paid in late 2004 by the holder of the right to explore the Moatize coal mine. Therefore, withdrawals from the Moatize Fund are clearly established in each annual budget law and its management and use are conducted through the usual budget and cash management procedures. In line with the IMF-supported PRGF and PSI arrangements, the proceeds from the Moatize Fund have been mainly prudently used to finance infrastructure spending (especially bridges) and in line with the government's overall fiscal targets.

There are no special rules for the management and accounting of resource-related assets and revenues.

2.1.2/1.2.5/2.2.1

18. Resource revenue-funded operations are subject to the same budget classifications and accounting principles as the rest of the State's fiscal operations, as established by the SISTAFE Law. For instance, the Moatize fund, which at time of its creation amounted to US\$122 million, is deposited in a savings account set up abroad. The account is managed by the BM on behalf of the Treasury, and in line with the government's integrated asset and cash flow management policy. However, the transparency of the management and use of the Moatize Fund, and especially the reconciliation of flows and stocks, is undermined by the fact that Mozambique still does not provide a complete balance sheet of the State's operations (paragraphs 45 and 52 of the fiscal ROSC).

Public Availability of Information

Although they are included in the budget, resource revenues are not clearly identified in the budget documents.

3.1.1/3.1.4

19. The information provided in the budget document allows for the identification of the Mining/Petroleum production tax (Royalties) and Land Tax (*Impostos sobre a Produção Mineira/Petrolífera e de Superfície*), and the own revenues (*Taxas de Prestação de Serviços*) of the Mining Development Fund. However, the budget documents do not make it possible to identify either the corporate income tax revenue from mining and hydrocarbon companies, or the funds obtained from mining concession revenues. For instance, the withdrawals from the Concessions Resources Fund for the Moatize mine are reported in the budget under the heading of "capital income". However, as a breakdown of "capital income" is not provided, it is difficult to know the volume of the withdrawal authorized in the annual budget (paragraph 29 of the fiscal ROSC). This issue has been alleviated by the government's commitment to sustainably manage and report withdrawals from the Moatize Fund in the context of the IMF-supported PRGF-arrangements and Policy Support Instrument. Nonetheless, this is a problem that could be addressed very easily, as Mozambique's current budget classification (on the revenue side) and management tools (the e-CUT and the e-SISTAFE) allow for the identification of revenues according to their source.

20. As in the case of other public enterprises and publicly-owned corporations, the State's budget proposal and law do not include, in annexes, the budgets of ENH, CARBOMOC, CMH,

³³ The Mining Development Fund is an autonomous institution in charge of providing technical and financial assistance to the large number of Mozambican small scale mines and artisanal workers in the mining sector.

and CMG (paragraph 2 of the fiscal ROSC). Moreover, the budget documents do not report on the State's direct participation in the resource sectors (e.g., the State's 20 percent participation in CMG and CMH) nor on the State's participation through public enterprises or publicly-owned corporations involved in the resource sectors (e.g., the ENH's participation in the exploration and production of several oil and gas blocks). This is aggravated by the fact that the final fiscal accounts, the *Conta Geral do Estado*, does not include the State's balance sheet or report the values of the State's financial assets and liabilities (paragraph 45 of the fiscal ROSC).

The budget documents do not present the (primary) non-resource fiscal balance. 3.2.3

21. The SISTAFE law does not include any specific provisions mandating the computation of the non-resource primary fiscal balance. Therefore the non-resource fiscal balance is not used as an indicator of the macroeconomic impact and sustainability of fiscal policy. This may not, however, be a major issue since to date resource revenues are still modest. Looking forward, if the resource revenue were clearly identified in the budget documents, something that could be easily done by applying Mozambique's current budget classifications, the computation of the non-resources fiscal balance would be straightforward.

The reporting of resource-related operations should be substantially strengthened.

3.1.5/3.1.3/3.1.4

22. The granting of mining titles and petroleum concessions contracts is usually presented to the public in a press conference or communiqué, in which the main characteristics and objectives of the contracts are described. However, mining and petroleum concession contracts are difficult to gain access to. Moreover, no separate report is made to the AR. In the oil sector, public tenders for permits in gas and oil exploration contracts and the approval of environmental impact studies managed by the National Petroleum Institute are very lengthy and not made available to the public (paragraph 9 of the fiscal ROSC).

23. According to the Petroleum Law and Laws No. 11 and 12/2007, the Council of Ministers has the authority to compile information on the income derived from petroleum operations and to publish it periodically. However, long-term projections of natural resource revenues and reserves are not made public (paragraph 46 of the fiscal ROSC). Moreover, information on contingent liabilities, fiscal risks, quasifiscal activities, and tax exemptions related to natural resources operations is not available (paragraph 18 of the fiscal ROSC). Furthermore, apart from the information contained in the budget documents and the IMF-supported programs' documents, there is no system for the regular reporting of the stocks and flows of the Moatize fund.

Assurances of Integrity

Resource companies are subject to the internal controls and audit procedures established in the corporation act and the commerce code. 4.2.5

24. Thus resource companies are subject to the same auditing and accounting standards as the rest of the private sector. However, the existing legal framework governing the public enterprise sector does not provide the Treasury with effective instruments to control and monitor the operations of public resource enterprises (i.e., ENH and CARBOMOC) and publicly-owned corporations (i.e., CMH and CMG).

Resource sector corporations are subject to the same tax administration procedures as the rest of companies. 4.2.6/1.2.1

25. In practice, however, there is a lack of qualified staff at the ATM to conduct inspections, handle disputed assessments, and provide taxpayers with assistance in resource sector taxation.

Oversight of government resource revenue and operations.

4.3.1/1.1.5

26. As is the case with the rest of Mozambique's public enterprises and publicly-owned corporations, ENH, CARBOMOC, CMG, and CMH are subject to the external reviews conducted by the supreme audit institution, the TA. However, a consolidated financial report covering the public enterprise sector involved in natural resource activities is not developed.