

Joint Review - 2004

Aide-Mémoire

April 7, 2004

I. INTRODUCTION

1. From March 24 to April 5, 2004, the Government of Mozambique with participating external partners met to review the Government's implementation of its development program (Joint Review).¹ This review was based on Government plans (as reflected in the Government's Action Plan for the Reduction of Absolute Poverty (PARPA), the Economic and Social Plan (PES), and the Performance Assessment Framework (PAF) matrices) and achievements (as described in its *Balanço do PES* (BdPES), budget execution reports, and various monitoring reports completed in the recent past²) over 2003. The review consisted in a backward-looking exercise that attempted to assess Government performance over 2003, and a forward-looking exercise that attempted to articulate more fully the partners' priorities for 2004 and beyond, through agreement on a revised core PAF matrix.

2. Twenty working groups, distributed over five thematic groups, completed detailed reviews in assigned areas; their reports are included *in toto* as annexes to this Aide-Mémoire (AM). The first thematic group focused on overarching poverty issues and included technical teams reviewing (i) growth and macroeconomic stability; (ii) poverty; and (iii) monitoring and evaluation (M&E) systems. The second thematic group focused on public financial management (PFM) and included teams reviewing (i) taxation; (ii) budget formulation, execution and reporting; (iii) procurement; and (iv) the integrated financial management information system (SISTAFE). The third thematic group focused on governance and included teams reviewing (i) public sector reform, decentralization and corruption; as well as (ii) legal and judicial reform. The fourth thematic group focused on private sector development (PSD) and included teams reviewing (i) the financial sector; (ii) the investment climate; (iii) agriculture and rural development; (iv) the environment; (v) telecommunications; air and rail transportation; (vi) road transportation; and (vii) energy. The fifth thematic group focused on service delivery and included teams reviewing (i) HIV/AIDS; (ii) health care; (iii) education; and (iv) water and sanitation.³

¹ Participating external partners included Belgium, Denmark, the European Commission, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Sweden, Switzerland, the United Kingdom and the World Bank (these 15 support a joint program for providing budget/balance of payments support and are known as the G15), which have signed a Memorandum of Understanding with the Government. Observing external partners included: Canada, Japan, Spain, the United States, the United Nations, the International Monetary Fund, and the African Development Bank.

² These include the second *Inquérito aos Agregados Familiares* (IAF); the *Trabalhos de Inquérito Agrícola* (TIA); and several lesser indicators surveys.

³ In the remainder of this aide-mémoire, these groups will be called, respectively, the poverty group; the PFM group; the governance group; the PSD group; and the service delivery group.

3. The overall assessment is presented in section II. The detailed assessment of 2003 performance is presented in section III, and the forward look at 2004-2006 is given in section IV. The preliminary results of a fiduciary risk assessment are recorded in section V, while the audits associated with the past year's joint program are summarized in section VI. A learning assessment was conducted during the Joint Review. Its report will be available in May 2004 but the process is described in section VII. The short version of the Performance Assessment Framework matrix ("short PAF") is given in Appendix 1 (p. 24). The audit of the joint program to date is given in Appendix 2 (p. 28).

II. OVERALL ASSESSMENT

4. **Implementation in 2003.** The Joint Review found that PARPA implementation in 2003 was broadly positive. Data from the 2002-03 household survey show that the poverty headcount fell from 69% in 1996-97 to 54% in 2002-03 and the poverty gap fell by 9%. Growth was strong at 7.1%. PAF outcome targets in PARPA priority sectors (education, health, agriculture and infrastructure) were largely met. In terms of cross-cutting reforms, notable achievements in 2003 were the revision of the labor decree, the financial audit of BIM, the rise in tax revenues, integration of PARPA implementation reporting into the Balanço do PES, passing of the local organs law and introduction of district planning in 21 districts, functional analyses in key sectors, the launching of a corruption survey, the approval of the legal and justice sector strategic plan, and good progress with implementation of SISTAFE.

5. However, there were some shortfalls in meeting PAF outcome targets and fulfilling PAF priority actions. EP1 completion rates fell short of the target and are off-track for meeting the MDG goal. Progress in roads rehabilitation and periodic maintenance was slow due in part to appreciation of the Rand and concerns within the VAT system. There were several cross-cutting reforms where progress was weaker than expected. Budget execution in 2003 was below the 67% PARPA target and the budget allocation in the key social services. The new procurement decree was not adopted and anti-corruption bill was not signed into law or promulgated. Legal and judicial reform was slow, with a continued poor record in prosecuting corruption cases and a rise in caseload backlog. Whilst not prioritized in the PAF, the lack of fulfillment of external audit's mandate in terms of coverage, timeliness and quality was recognized as a problem. Finally, it was noted that the Government's operations were hampered by the fact that donors' disbursements did not arrive in a timely manner.

6. **Priorities for 2004.** The review confirmed the importance of implementing priorities outlined in the 2004 PAF and wider commitments identified in the 2004 PES. In terms of sector priorities, emphasis was placed on the importance of Government's commitment to urgently accelerate the implementation of the national HIV/AIDS response program. It was noted that the on-going implementation of cross-cutting reforms identified in the PAF would be crucial for continued achievement of development outcomes in the priority sectors. Particular emphasis was placed on Government's commitment to initiate a forensic audit of Banco Austral. Plans to improve planning and budgeting by streamlining and clarifying the M&E system and improving budget execution and transparency (by fully reflecting the functional classification) were welcomed. The review underlined the importance of the Government's good governance priorities for 2004 to adopt a new procurement code, pass the anti-corruption bill into law and move the legal and judicial reform program from planning to action. Actions proposed on a VAT taskforce, customs clearances, labor regulations and

business registration were confirmed as important for improving the investment climate. The need for urgent action was underlined in implementing commitments in the areas of external audit and procurement. In the macro environment, strong support was given to Government's commitments to control inflation, by limiting liquidity and recourse to banking-sector financing for the budget and by donors disbursing funds more evenly and predictably over the financial year; and help reduce interest rates, by implementing a careful and sustained financial sector reform program that increases banking-sector competition.

7. In a few cases, actions from the 2004 PES were added to or chosen to replace actions previously identified in the PAF. These included submitting the revised commercial code to parliament, divesting public equities in the banking sector, reforming the insurance sector, increasing resources allocated to anti-corruption units, and reforming and unifying the prison system. It was agreed that some PAF indicators in the health and education sectors should be exchanged for others from the PES, since they would give a better indication of performance in the sector, including gender impacts. A limited number of 2004 PES actions were also highlighted that, whilst not top priorities, were considered be very important for PARPA implementation in 2004. These included the undertaking of analytical work on determinants of poverty, mainstreaming of gender and HIV issues into public sector reform, including targets in the PES to measure the disbursement to provinces, finalizing a proposal for the institutional role and functioning of external audit, procurement reform, budget execution according to PARPA priority sectors, and ensuring a smooth flow of funds during the year by establishing quarterly disbursement targets. In order to continue to fulfill the underlying principles for the provision of budget support, the need for Government to guarantee free and fair elections in 2004 was emphasized.

8. **Issues to be considered for 2005 PES/PAF and budget.** It was agreed that the key issues to be considered during the 2005 PES and OE process would largely relate to continuation and strengthening of the sector strategies and the cross-cutting reforms under way. In the latter area, these would include completion of the forensic audit of Banco Austral and implementation of International Accounting Standards, submission of the labor law to parliament, consideration of setting quarterly disbursement targets, implementing program budgeting, extension of Sistafe implementation, progress on procurement reform, strengthening of audit functions, continued introduction of participatory district planning, implementation of restructuring plans in key ministries, approval of a medium term pay policy, approval and implementation of an anti-corruption action plan and simplification of key codes and laws.

9. In conclusion, the Joint Review found that good progress had been achieved in a number of areas, giving a reliable basis for PAPs to decide on continuation of Program Aid.

III. ASSESSMENT OF GOVERNMENT PERFORMANCE IN PARPA IMPLEMENTATION IN 2003

A. MACROECONOMIC MANAGEMENT

10. **Poverty, macroeconomic stability, and M&E:** According to preliminary estimates, real GDP grew by 7.1 percent in 2003. GDP growth was about 8 percent annually on average between 1996 and 2002. In 2003 the main sources of growth were registered in agriculture

(6.4%), extractive industry (119%), energy and water (9.3%), trade (9.2%), transports and communication (13.6%), and public administration (18.3%), which is a sign that growth is broad-based. Thus the PARPA target of 8 percent growth in the period 2001 to 2005 was largely achieved. The poverty level is currently monitored on a five-year basis using the PARPA targets. Therefore a global annual indicator is not provided in the BdPES and the PAF. The PARPA development objective is to reduce the incidence of absolute poverty from 70 percent in 1997 to less than 60 percent by 2005 and less than 50 percent by 2010. This is broadly consistent with the MDG on poverty eradication, which has the target of reducing by half the proportion of people living in absolute poverty by 2015. The consumption based poverty indices from the recently published household survey show a significant reduction in extreme poverty from 69.4 percent in 1996-7 to 54.1 percent in 2002-3. This means that the PARPA 2005 goal has already been achieved. Other data, e.g. from qualitative, agricultural, and household asset surveys, strongly corroborated these results. Welcoming these findings, the poverty group noted the need to undertake additional or complete ongoing work to understand the elasticity of poverty reduction; the impact of mega-projects; and the role of gender, HIV/AIDS and rural/urban/peri-urban status, as well as of Government policy, as poverty determinants.

11. Preliminary data suggests that equity may have improved, as witness greater progress in poverty reduction in rural areas, and in the north and center of the country. However, as the baseline was extremely low, levels of poverty remain high: more than half the population fails to attain a basic standard of living and Mozambique faces a significant challenge in sustaining and strengthening current trends.

12. The poverty group found that the Government in 2003 had exercised appropriate macroeconomic management, as quantitative targets were met (e.g. revenue, real GDP growth, international reserves) or missed by a small margin (domestic primary deficit) and structural benchmarks were also met (the Financial Institutions submitted to Parliament while the Tax Tribunals law was approved; a plan to create a central revenue authority was approved; and a consolidated treasury account was established as a first step towards create a single Treasury account). Annual inflation, which rose to 13.8% at year-end against a 10.8% target and continued to climb in early 2004, constitutes an important exception. The group recognized that the 2003 rise in inflation was due to the impact on food prices of the regional drought earlier in the year as well as the appreciation of the rand against the metical, and it rose further at the end of 2003 and in early 2004 due to a significant monetary expansion associated with the concentration of Government spending in late 2003, financed with delayed disbursements of external aid that were not sterilized by selling foreign exchange. The poverty group recommended increased attention to this problem, by both the Government and the donors.

13. Turning to **M&E systems**, the poverty group found significant progress in integrating M&E processes and improving dialogue between the Ministry of Planning and Finance (MPF), the sectoral ministries, and the National Institute of Statistics (INE) as well as with civil society (through the Poverty Observatory). In particular, the use of the BdPES to report on PARPA implementation,⁴ and annual agreement on a PAF matrix of prioritized actions and indicators to be included in the PES, were widely viewed as important steps forward, and they also institutionalize greater parliamentary oversight (the MPF must submit the PES and

⁴ The G14, World Bank and IMF agreed to use the BdPES as the main instrument for assessing Government performance, which, for the World Bank and the IMF, implies accepting the BdPES as a PARPA Progress Report and the basis for the Joint Staff Assessment of Government progress.

BdPES to parliament). The poverty group also noted important improvements in the BdPES compared to earlier years (e.g. in providing some analysis as well as reports on overall budget execution and progress towards the Millennium Development Goals). Nevertheless, in reviewing the Government's overall M&E effort, the group observed some important deficiencies that persist in the system. The M&E strategy needs to be better operationalized in order to ensure a common understanding of the planning and monitoring instruments and how monitoring links with planning. There is a need for better coordination of the M&E system as a whole to ensure that the various reporting requirements are streamlined and consistent. In this respect, it is important to note that donor demands for *ad hoc* M&E systems also continue to draw attention away from this overall aim, thus impeding progress. Capacity weaknesses continue to afflict the M&E system.

B. GOVERNANCE

14. **Public sector reform, including legal and judicial reform.** The governance group found that the Government made progress in implementing its medium-term **public sector reform** program in 2003, with some targets met. However, anti-corruption and justice sector strengthening are continued areas of concern. Efforts have been made to create support for the reforms both within government and in the general public. All 22 ministries are undertaking functional analyses to determine how to optimize functions, departments and staff with a view to launching restructurings, five ministries are at an advanced stage in the work (MADER, MISAU, MINED, MAE and MPF), and MIC is nearing completion. The emerging functional analyses are of varying quality, in part because the parameters (regarding, e.g., the appropriate role of the state, prospects for decentralization, and budget ceilings) were not made clear at the outset. The group also noted that the Government is undertaking preparatory work for a **pay reform** program that will link pay to performance (in particular UTRESP is circulating a preliminary issues paper for comments), though much work remains to be done to evaluate the performance of civil servants, increase their capacity, reconcile co-existing personnel databases (in MAE, MPF and the Administrative Tribunal), accomplish re-engineering tasks, and address gender and HIV/AIDS issues. In addition, a **corruption** survey is underway to evaluate the experiences of entrepreneurs, private citizens and civil servants with poor governance, which will enable the Government to establish a governance baseline. In October 2003 the anti-corruption bill was passed by Parliament, but was not promulgated because certain articles in the law were viewed as being unconstitutional. The law has been returned to the Parliament for rectification and is on the agenda for deliberation during the current sitting. The Government has signed the AU Convention, which needs to be ratified, and the SADC protocol on anti-corruption, but not the UN Convention presented for signature in December 2003. The capacity of the justice sector to deal with corruption cases is low and corruption within the sector has become a serious problem. It is important that the justice sector, the prosecution and the courts handle corruption, and that they are seen to be fighting corruption. A specific study should be carried out regarding the situation of corruption in the justice sector institutions.

15. **Deconcentration of state administration.** Progress has been made in this area. The Local State Organs law was passed, deconcentrating certain services to the district level, and recognizing the district as a budgetary unit for the first time. As targeted, 21 districts in 2003 introduced a participatory planning process (with Nampula province continuing to lead), which will enable them to access a donor-funded discretionary fund to finance local small-scale infrastructure works. Nonetheless, further work is required to create sufficient financial

and administrative capacity at district (and provincial) levels; involve all stakeholders in the planning process; strengthen the ability of districts to collect their own revenues; and institutionalize consultative mechanisms at the local level.

16. The governance group found that performance in **legal and judicial reform** continues to be poor. Case disposition increased 31 percent from 2002 to 2003, but still reflects low productivity (average 21 cases resolved per month per judge) and an inability to keep pace with the incoming case load. As such, the backlog increased from 98,244 to 103,518 in 2003. The lack of expedient processing of criminal cases causes severe delays in the legalization of detentions, arraignment and sentencing. This factor, together with the low execution rate of budgets approved for improvements in prisons, contributes to violation of principles of due process and basic human rights. Slow case processing in civil cases and high judicial costs (up to 15 percent of the value of the claim) constitute barriers to contract enforcement. This situation, together with the overly complex legislation in the area of civil procedure and commercial law, affects the investment climate, the growth of the national private sector and the banking sector in particular. The tardiness and lack of communication with the public on the status of the investigation and resolution of high profile economic and financial crime cases, some of them involving assassinations, leave the impression of impunity. The capacity of the sector in pursuing corruption cases is poor and convictions are very few. There is also slow progress in implementing policy decisions such as the reorganization of the judiciary, improving access to public defense, legal reform actions, and assuring criminal investigation capacity.

17. However, some progress has been made with regard to **judicial reform**: the Council of Ministers has approved the strategic plan for the sector (although a common long term vision remains to be defined); priority actions identified in the plan have been completed; training of new judges and prosecutors has been undertaken as planned (but trained new entrants have not been formally incorporated as civil servants); and the strategic plan for the police is nearing approval. In sum, the group expressed concern about the sector's lack of integration (the strategic plans for police and justice were prepared in isolation); its failure to use the strategy as a planning and budgeting tool, and its poor record in prosecuting corruption cases; and the continued rise in the caseload backlog. In addition, key legislative revisions are urgently required in the Civil Procedure Code to promote contract enforcement (e.g. by executing on collateral) and in the Commercial Code, which has been under consideration in Parliament for more than a year.

C. PUBLIC FINANCE MANAGEMENT

18. **Public financial management, including taxation and procurement.** The group found that steps had been taken to improve PFM, but also that much more remains to be done. Budget execution figures in 2003 varied among sectors, but the share of non-interest allocations to priority sectors was at most 66%, short of the PARPA target of 67%. The share of actual expenditure, even of non-election and non-interest spending, was at most 64.9%. Within this, the priority sectors' outturn was just below a half of the recurrent budget, though priority investment spending was over three-quarters of the total investment outturn. Prioritization of expenditures appears to be a primary issue. Some sectors, such as health and water, had particularly low execution rates, while others were over-spent. Provincial actual spending appears to be highly unequal, though this impression may arise from incomplete coverage because the figures do not reflect some centralized activities. While the PES for 2004 incorporates the PARPA more fully than the PES for 2003, the group found that its

links to the medium-term financial framework (MTFF) and the budget remain weak, particularly with respect to costing activities; in addition, the methodology and presentation of the BdPES differs from those of the budget execution reports for 2003. The group also found that functional classifiers have been introduced in the budget to enable the identification of poverty-reducing expenditures, as agreed in 2001, but that the implementation of the classifier was incomplete, so that important additional work remains to be done to bring it to the appropriate level of detail. In addition, although the Government has made a good start, the group found that much more work needs to be done both (i) to capture all funds that are “off-budget” (particularly donor funding through cross-checking, the MPF has managed to track a significant proportion, calculated at about 38% of total donor off-budget flows, which is reported as of the state budget annually, and which directly disempowers the MPF vis-à-vis spending agencies that receive substantial funds directly from the donors)—and (ii) to make the budget execution reports meaningful (the 4Q-FY03 report lacked analysis, and the sectors do not recognize their budget status in it). It was in this connection noted that Sistafe from 2005 will allow incorporation of donor funding for particular projects. With respect to budget systems, the PFM and the service delivery groups found that many sectors (including particularly the social sectors) continue to have serious difficulties with budget execution, caused both by problems of availability and seasonality of funding (domestic and external), and also the irregularities and poor quality with which the sectoral ministries present their *prestação de contas* in order to justify the disbursement of the next *duodécimo*, with the result that funds often arrive very late. Progress in internal auditing has been observed. With respect to the external audit, it does not fulfill its mandate in terms of coverage, timeliness and quality of audits.

19. The group also noted that the flow of funds from MPF to several of the key ministries, particularly health and water, and thence to local providers, was low, slow and uneven, due among other things to delays and unpredictability in donor disbursements, and that planning, budgeting and financial management was weak, with the result that budget execution was low.

20. The **SISTAFE** was discussed on the basis of a debriefing from the SISTAFE Quality Assurance Group (QAG), and on comments by the visiting IMF technical supervisor on the reform. The parties agreed that SISTAFE was an important reform, and that good progress had been made, with the main problems facing the program at the end of 2003 having been overcome. UTRAFE is now established in the CPD building with a strong team and good material resources. Good progress has been made with software development with e-cut física 1-version functioning and e-Sistafe operating on a trial basis in its version 4. Some strengthening of management capacities has also taken place. Further software development is urgent, and especially the merger of e-cut física and e-Sistafe. The QAG, in its preliminary findings, identifies as the key challenge the need to ensure that users of e-Sistafe, in key areas, fully accept the system and be more involved. At the same time, UTRAFE needs to improve the ongoing work to proceed faster with work on change management processes, both in the MPF and in the line ministries. As work on development of the software has been intensive, testing is still insufficient in several respects. There is a need to strengthen UTRAFE management, both on the IT side and in planning and management. Procurement needs to be made more flexible through call off contracts. An additional task that needs to see more action is to urgently reduce the number of Government accounts at the central bank and the private banks, and to close all accounts which relate to past years.

21. **Tax reform** made significant progress during 2003, with introduction of new income taxes (individual and corporate income), motor vehicle tax and a large increase in the fuel tax to offset accumulated erosion through inflation. Total revenues rose from 13.3% to 14.3% of GDP in 2003, with a strong performance on income tax (increasing from 18% to 22% of total tax). This performance was also due to improved efficiency in tax administration.

Additionally, in view of the creation of the Central Revenue Authority, the terms of reference and action plan for its establishment in 2006 were approved, and the process of restructuring the Directorate for Taxes and Audit (DNIA) was started, with consideration for developing common services with Customs Directorate (DGA). Improvements were also observed in customs clearance procedures, with new legislation simplifying customs control.

22. Although Mozambique's debt-to-GDP ratios are low, its ratio of public external **debt** to government revenue (including grants) remains high, at 160%, and so the economy remains vulnerable to volatility in external grants. In this context, the PFM group appreciated the Government's efforts to properly register all private and public debt, but expressed concern about slow progress in articulating a medium-term debt strategy and in updating the directives on debt and debt management. Efforts to restructure foreign debt have had good results, with most Paris Club members having given or soon expected to give debt relief and a commercial debt buyback scheme now underway. The fiduciary risk assessment being undertaken is expected to do work on contingent liabilities.

23. The PFM group found that progress in **procurement** reform has since its start in 2000 been slow and needs urgent action. Although a new procurement code is at the early drafting stage, the Government recently terminated the practice of permitting bidders to offer commissions to officials who review the bids. The group noted that the increased role of the Administrative Tribunal (AT) in pre-review has increased costs and reduced timeliness in procurement. At the same time, AT has a questionable double function in both pre-reviewing and auditing government contracts. An alternative that allows the AT to review bidders' complaints would be preferable. It also observed that donor efforts to improve procurement at the ministerial level are helping to inculcate pockets of better practice, and should be encouraged as providing a model for the center, but they should not undermine badly needed reform of the central procurement system.

D. PRIVATE SECTOR AND BUSINESS ENVIRONMENT

24. **Private sector development:** The PSD group recognized progress in strengthening the **financial sector** in 2003: in particular, a comprehensive review of BIM found the bank to be adequately capitalized; BIM and BAu improved their results by downsizing and strengthening internal controls; a new Financial Institutions law, enhancing the central bank's authority, and some training was conducted at the central bank in connection with the BIM review. The group also noted the need for greater collaboration between the central bank and MPF. As domestic interest spreads remain very high (at 16-17%), suggesting deep-seated inefficiencies and high levels of perceived risk in the financial sector, the group noted that these require careful and sustained response. Concerns were expressed on parastatal investments in the banking sector (e.g. EdM in BMI) as well as on limited progress in the criminal investigations of wrongdoing in BAu and former BCM (Banco Comercial de Moçambique). The group noted that the Attorney General had taken steps regarding the investigation of BAu before receiving the formal letter with terms of reference for a forensic audit from the Banco de Moçambique. The group also noted that the BCM fraud case has proceeded to court.

25. In reviewing changes to the **investment climate** over 2003, the PSD group found mixed results. It noted that private sector participation in telecommunications and air transportation had expanded significantly, and that the Enterprise Development project has had some success in helping small- and medium-sized enterprises (SMEs), with some 900 SMEs receiving support and now capturing \$30 million of business from mega projects per annum. While overall exports grew strongly, sustained growth of exports from SMEs remains a concern, as many SMEs continue to have low productivity and competitiveness resulting from a number of factors. Among other things, business **regulations** remain cumbersome: in particular, the time and cost involved in registering a business remain prohibitively high and the inspection regime is excessive and too discretionary. Although performance is improving, delays in payments of **VAT refunds**, resulting from both in delays from the Government and from the private sector, cause current investors to experience cash-flow strains and may cause potential investors to lose confidence that promised Government actions will occur. Despite progress the private sector continues to see **customs clearance** as slow and costly. Moreover, while the **labor market** may become more flexible due to the recent approval of Decree 57/03, which allows firms to hire expatriates within a 15-day period with tacit approval of the Government, regulations on retrenchments and short-term hiring remain restrictive. The group also found that the private sector conferences had not been very effective in addressing these and other issues tabled in that forum and that the dispersion of responsibility across the Government for improving the investment climate was probably impeding progress.

26. **Agricultural** growth in 2003 surpassed PARPA targets of 8%, with strong growth in cash crops, primarily in tobacco (73%), sugar cane (22%), cashew (17%) and livestock (18%), and a slight increase in food crops, hampered by unfavorable rains during the 2002/2003 growing season. Concern remains over the limited coverage of the extension services, which is improving but has reached so far only 18% of farming households. Vaccination of poultry and cattle has considerably improved, with positive effects on disease control. The enabling environment for availability of credit in rural areas for farmers and SME needs further improvements. Processing of land titling improved considerably, as has access to markets. New legislation now enforces management planning for forestry concessions, although the approval process has to be further enhanced. Disaggregated data are available on gender, poverty relevance and geography, but due to time constraints they have been insufficiently analyzed this year. Lack of timely and adequate disbursement of funds by MPF and donors caused liquidity problems during the year. While on-budget execution rate is in the order of 77%, off-budget flows continue to be very large and create considerable reporting and budget execution problems. While the absorption and implementation capacity of the sector institutions has grown, institutional reform in the sector remains slow and is hardly helped by the pace of the government's PSR program.

27. The PSD group also found progress in protecting the **environment**. Efforts to ensure the sustainable management of natural resources are bearing results, e.g. although one in three forestry concessions now has a management plan (compared to one in seven in 2002) quality and implementation remain a major concerns. Various regulations (on sustainable development and medical waste management) were prepared or revised; a national solid urban waste strategy was prepared; numerous site-specific urban or land-use plans were prepared; a new Land Planning law is being prepared; and some training and public notification activities were completed. Still integration of territorial planning with the PES, at the district level is not progressing much. The PARPA includes environment as a crosscutting issue, however environment seems to be only to a limited extent integrated into the key

sectors. The PSD group has therefore prepared indicators for 2004, 5, 6. These are included in the annex and will be used as indicators for the Joint review in 2005.

28. Progress in expanding large-scale **infrastructure** was also noted. In 2003, a second mobile telephone operator, Vodacom, entered the market, with the result that mCel lowered its prices; a private operator was granted a 15-year concession in the Maputo port, resulting in improved clearance times; the decree that granted LAM a monopoly on air transportation was revoked, opening space for other carriers; and private participation in other air transportation is being actively pursued. Progress in road rehabilitation (except at the tertiary level) and periodic maintenance was slow, as Roads 3 started slowly, the sharp rise of South African rand created financing difficulties, and the VAT refund system caused concerns among potential contractors. By contrast, 80% of routine maintenance was accomplished⁵; the Road Fund was legally established; and open tender for procurement of routine maintenance contracts rose from 25% to 50%; and the provincial road inspectorates were privatized. In the energy sector, the PARPA goal of electrifying all 128 district capitals was brought within reach (only 8 remain without electricity), though difficulties in maintaining and fuelling the many isolated grids that are needed is resulting in limited service (an estimated 60% to 70% of the time) that provides little support to economic activity. In addition, EdM's new connections to the grid exceeded the target of 17,000 included in the performance management contract but a problem of disconnections due to non-payment persists; work was initiated on the Lichinga-Pemba interconnection; and a concession was awarded for providing electricity in northern Inhambane. Sasol-sponsored work on developing the gas fields at Temane and Pande is also nearing completion, with first gas deliveries expected soon. Finally, to improve EdM's performance, its operations were separated into new business centers; the Government is exploring options for introducing private-sector participation in distribution, and it has also decided to permit tariff adjustments over a three-year period.

E. SERVICE DELIVERY

29. In reviewing Government action to fight **HIV/AIDS**, the service delivery group found that implementation of the national response has been undergoing institutional and strategic difficulties. The slow revision of the strategic plan in 2003, few results on the ground, as well as cumbersome (financial) management processes call into question the human and institutional capacity of the National AIDS Council to lead the national response effectively. In 2003, Government spending rose to \$3.6 million, but it is still about 70% of its \$5 million annual commitment. The group believed that the Council's recently-launched communication plan, ongoing efforts to focus on its core responsibilities and simplify its processes (*inter alia* by creating a common fund for civil society organizations, regardless of source of funding), as well as the recruitment of additional capacity (international technical assistance) will help the Council to execute its role. It also found that plans developed in the sectoral ministries (particularly MISAU and MINED) could provide complementary support to implementing the national response. The group also observed that data on prevalence rates (gathered through sentinel surveys) are robust, but that the overall prevalence rate, which is the only HIV/AIDS indicator in the core PAF, was not a particularly informative indicator, as it moves slowly (reflecting ten years of cumulative infections) and is not directly linked to new infections or to current Government action: the HIV/AIDS technical group therefore

⁵ In the 12 month period from April 2002 to April 2003.

suggested adding second-generation indicators linked to annually collected data on prevention and treatment.

30. As shown in the recent Demographic Health Survey, outcomes in the **health** sector over 1997 to 2003 were good (with strong improvements in the outpatient utilization rate, child vaccination, infant mortality rate (IMR), under-five mortality rate (U5MR), and the contraceptive rate). In this context, the service delivery group found that these indicators were not systematically included in the core PAF, which focuses in part on hospital data that could in fact be counter-indicators (e.g. if a larger number of complicated cases are referred to hospitals, which would in itself indicate progress, hospital fatality rates could increase, though this fact might erroneously be understood to indicate regress), and so the group recommended their revision. Several health sector inputs (access, drug supply) showed a positive trend in 2003, though there remained ample room for improvement (despite a three-fold increase in drug supplies over the last five years, 60% of facilities still reported stock-outs in the previous six months). More particular concerns focused on the doctor/population rate, which is already among the worst in the world and trending downwards, and the capacity of health care workers more generally, as service conditions and insufficient supervision appear to undermine productivity. In addition, the group observed that health interventions across Mozambique are not sufficiently adjusted to local needs and objectives.

31. In **education**, the service delivery group found that the indicators in the core PAF were not sufficient to depict overall progress in the sector, so it also looked into performance against indicators in the large PAF. The group found that targets for gross and net primary school enrolment were exceeded and targets for the repetition rate and gender equity were met, while the completion rate fell short of the target (40%). In addition, the group found progress in that the sector strategy is being revised; the new primary education curriculum was piloted; a strategy for community school construction program was finalized; and the Direct Support to Schools (DSS) program was launched, enabling all 8,000 primary schools nationwide to receive small cash grants that local officials could use to finance locally-identified needs on a timely basis. Reflecting on areas of concern, the group noted the unsatisfactory flow of funds in the sector; low internal efficiency (as indicated by high repetition and drop-out rates); lack of sustainability in the supply of key teaching materials; and the low supply of teachers (particularly teachers with qualifications), which is due partly to the impact of HIV/AIDS.

32. Finally, in the **water** sector, the service delivery group found that the key PAF/PES indicator, viz. access to safe water, reached 38%, exceeding the annual target of 36%; that funds were decentralized for the first time through the provincial directorates for waterpoints and latrines; and that the Government's investment budget was only partly executed—33% from the internal and 61% from the external investment budget—in part because the first twelfth of the 2003 budget was not loaded until May, resulting in debt accumulation and a lack of counterpart funds. In urban water supply, the contract for the private operator of water supply services in the five largest cities (Maputo, Beira, Quelimane, Nampula and Pemba) was renegotiated following the withdrawal of the initial operator, and in addition the model was extended to four more cities (Xai-Xai, Chokwé, Inhambane, and Maxixe). The group also found good progress in water resource management, as stakeholder meetings were held with a view to developing a new strategy, negotiating international river issues and creating international basin commissions, though it noted that the PAF included no specific objectives or targets in this area. Besides concerns about budget execution, the group also

found that the slow increase in urban water supply and difficulties in recruiting and maintaining qualified staff were troublesome.

IV. FORWARD LOOK FOR 2004-2006

33. Given that the Government's program for 2004 is already defined and approved by the Parliament, many of the recommendations of the review were made with a view to being given careful consideration during the PES and OE process for 2005. However, the transitional nature of this year's review meant that teams also discussed and confirmed priorities identified for 2004.

A. MACROECONOMIC MANAGEMENT

34. The overall aim of the economic program for 2004-06 is to further reduce poverty by consolidating macroeconomic stability, address remaining structural weaknesses, promote employment creation and ensure that budgetary allocations are compatible with the PARPA targets and priorities for 2004-06. Macro economic measures agreed with the IMF are expected to facilitate growth of 8% in 2004 (7.1% excluding mega projects). These measures include a decline in broad money growth to help achieve a targeted reduction in inflation to 11 percent by the end of 2004. The domestic primary deficit, and overall deficit after grants are projected to decline to 3.1 and 4.1 of GDP respectively by 2005. The deficit after grants is expected to be fully covered by net external financing. Total revenues are projected to rise supported by improvements in the tax system, income tax efficiency, automatic updates of the fuel tax, and also contributions from mega-projects. The Government is committed to stricter control over the wage bill.

35. **The future growth strategy.** Work is under way to investigate the policy requirements for optimizing the overall growth strategy in the future and strengthening the impact on poverty that the strategy could have. The Ministry of Planning and Finance team of researchers that produced the initial estimates of changes in poverty 1996/97-2002/03 is developing further analyses of the determinants of poverty. The Government, in collaboration with the World Bank's Country Economic Memorandum (CEM), is evaluating the past growth strategy and developing the broad lines of a new one, taking into account the growing impact of the mega-projects, the expanding prospects for tourism, the opportunities for exports of horticultural and other agricultural products, the manufacturing sector, the impact of foreign aid, and the mining sector. Much is known about the needs for improving the business environment and reducing red tape, and this is being ordered in a new strategy which will optimally sequence the large pending agenda of reform. The Government is also developing a new rural strategy which will incorporate ongoing work evaluating the impact of state spending in agriculture. A study of the economics of tourism is being produced in the context of preparation for the Transfrontier Conservation Area Project II (TFCA II). Also in the context of the CEM, work is under way to develop policies for the optimal use of natural resources – including land, forestry, fisheries, mining and water – and integrate their management into the overall growth strategy and the general policy debate about growth. Some of the findings of these inquiries may be incorporated in the new PARPA for the period 2006-2010.

36. Steps are envisaged for 2005 to include a greater proportion of own-generated revenue of all ministries in the 2006 budget execution and reporting. The top tariff rate applied to all trading partners will be lowered from the current level of 25 percent to 20 percent in 2006. Strong efforts are envisaged to avoid delays in reimbursing legitimate VAT claims.

37. **Poverty issues.** The Government will continue to work on essential further analyses of poverty in 2004 to achieve a more comprehensive picture. This will provide input for the 2005 joint review and poverty observatory, and in the preparation of the final version of PARPA 2006-2010. In future revisions of the PARPA clearer links should be established with the MDGs, as has been done in the Balanço do PES for 2003.

38. To help ensure continued poverty reduction, lessons need to be drawn and fed into policy dialogue. Access to household related data in between the regular IAFs would be helpful this regard. Follow up is needed concerning the provincial distribution of poverty; gender inequality; the impact of HIV/AIDS on the public sector; and promotion of agro industry activities, small scale farming and labor intensive production.

39. **Monitoring and evaluation (M&E).** The existing M&E actions in the PAF (under the sub-area 'Planning and Monitoring') for 2004 and 2005 should be retained. In order to achieve these, and fuller implementation of the M&E strategy, the following supporting actions should be considered for implementation in 2004 and inclusion in the 2005 PES:

- (a) Including in the PES 2005 an annex outlining selected key actions and indicators for each sector drawn from the main text of the PES, split by sector and indicator level/type, to provide a results framework for improved monitoring of the PES.
- (b) Including a section on monitoring requirements in the PES, distributing budget guidelines to sectors addressing MPF monitoring issues during the existing planning and budgeting cycle dialogue.
- (c) MPF coordinating a process for streamlining sector and provincial M&E systems, ensuring that proposed plans to improve M&E within sectors are consistent with the national strategy.
- (d) Better coordination between producers and users of data for monitoring poverty and public service delivery, including mapping data collection and dissemination to policy decision-making and M&E needs, promotion of increased use of trend data in policy analysis and appropriately disaggregated data.
- (e) Better linkage of resource allocations to program activities, outputs and outcomes, including improving and consolidating the functional classification for the 2005 budget and budget execution report and undertaking PERs regularly with expanded sector coverage.
- (f) Disseminating relevant poverty information in a timely manner to all interested stakeholders, particularly during the next PARPA revision, and making continued efforts made to facilitate the effective functioning of the Poverty Observatory. The Poverty Observatory is composed of civil society representatives, the "G20".
- (g) Development partners further aligning with the Government M&E system and harmonizing their dialogue on and support for M&E systems.

B. GOVERNANCE

40. Plans are in place in 2004 to improve service delivery through decentralization and institutional restructuring. The passing of the decree on transfers of responsibility signals the Government's intention to increase the functions of municipalities and there is recognition of the need for clear strategies to achieve this and to define criteria for municipal status. Functional analyses are planned for completion in at least 5 municipalities in 2004, and improvements are planned to monitor financial performance of municipalities and districts. Regulations under the municipal tax code are in preparation. Measures are in train to deconcentrate government activities. The regulations of the LOLE—Local State Organisms Law, which will help ensure consistency of approach across line ministries, are ready for approval for piloting in 30 districts. The planned 'roll out' of participatory planning in 37 districts in 2004 is in train, and there is a willingness to establish district level budgets. In addition, the Government will prepare a decentralization strategy that clearly distinguishes the roles of decentralization and deconcentration.

41. Looking to 2005 and 2006, time bound goals for the implementation of deconcentration and decentralization are yet to be clarified. Steps may be required to include district budgets in the PES and OE, reconcile and align relevant legislation (Law 2/96 (devolution - urban areas); Law 8/2003 (deconcentration - districts); SISTAFE and 8/2003). Barriers to women's participation in district planning processes need to be addressed and change management teams established in provinces. Functional analyses of provincial operations under OLE regulations are yet to be completed, and clarity is needed on steps necessary to enable local state organs to attain municipal status. Government will need to articulate how it will continue the process of democratic elected government at local level (autarquias), which today is limited to 33 municipalities in urban areas, home to less than 1/3 of the population.

42. As is stated in the short PAF matrix, at least 6 key ministries are expected to complete their functional analyses by the end of 2004. An evaluation of the process by UTRESP demonstrates the importance of key strategic decisions (concerning macro structure, budget ceilings, LOLE implications, and capacity demands) to underpin implementation. Management and delivery of the Quick Win program is being strengthened though additional inputs and support. There is broad acceptance that gender equity and HIV/AIDS needs to be 'mainstreamed' into human resource management policies and procedures informed by initial scoping studies. More detailed guidelines will be needed on how to scope the nature and extent of the restructuring activities. The likely cost of restructuring will need to be included in the OE and MTEF.

43. To enhance professionalism in the public sector, personnel databases are to be harmonized and work will start on revising the SCR (career remuneration system). A Medium Term Pay Policy (MTPP) will be considered by CIRES and a pension review initiated in 2004. Two IFAPAs are functioning and already delivering training, and a third will open later in the year, while ISAPA is established but not yet operational. The first phase of change management orientation training will be delivered in 2004 to senior staff. Beyond 2004 agreement is needed on strategies to mainstream gender and take better account of the impact of HIV/AIDS on the public sector. The activities of IFAPA and ISAPA need to be carried forward, revisions of the SCR considered, and a Medium term strategy for pay policy put in place.

44. There is recognition within Government that combating **corruption** requires a holistic approach embracing: prevention; encouragement of compliance; enforcement; administrative discipline; and application of the rule of law including criminal investigation and punishment. In 2004 and beyond this recognition must be demonstrated with concrete action to prevent and detect corruption in the public sector and assure that disciplinary procedures are followed. The corruption survey, currently being completed, will assist in the preparation of a strategy and provide a baseline for comparison. The introduction of SISTAFE should improve control of public funds and assets. Beyond 2004 consideration should be given to improving transparency of recruitment and promotion procedures. Finalization of the anti-corruption law is an urgent priority, as it legally constitutes the specialized prosecutorial unit. At present the unit is marginally operating with no permanent staff and no budgetary resources. Additional human and budget resources are essential to improve the capacity of the Attorney General's Office. The Government will ratify the African Union convention and the SADC protocol on anti-corruption and sign the UN convention.

45. To strengthen management of the PSR process, skills gaps in UTRESP need to be addressed. Recruitment action has taken place but further measures may be needed. The monitoring and evaluation system needs to be fully implemented. A fundamental review is scheduled for 2005. Long-term financial commitments need to be secured to sustain implementation of the program.

46. Urgent action is required to address human rights violations in the **legal and judicial sector**, by reducing illegal detentions and improving prison conditions. Productivity (case resolved per judge) and efficiency (length of time for case resolution) must be improved. Civil case disposition, particularly relating to property rights and contract enforcement, is essential to enhance the business climate for national and foreign investments. Budget resources to the sector need to be increased and all sector institutions must approve the budget and budget execution. Efforts are also required to prevent, detect and penalize corruption in the sector via procedural simplification and implementation of performance evaluation, inspection, and disciplinary procedures. A study on how corruption in the sector manifests will begin in 2004 and will emphasize concrete actions in its recommendations. Progress in high-profile cases is essential to demonstrate effectiveness of the justice apparatus and system, and presence of the rule of law. An integrated statistical monitoring system should be in place in 2004 to assess performance of the sector. The sector will also complete the preparation of guidelines for the restructuring and reform program of the justice system.

C. PUBLIC FINANCE MANAGEMENT

47. The Public Finance Management theme consists of four main areas: planning, budgeting, budget execution and auditing; tax policy; public procurement; and the public financial management system SISTAFE.

48. **Budgeting and budget execution.** As in the revised version of the short PAF, during 2004 the Government intends to ensure that actual spending on PARPA priority sectors reaches at least 65% of total expenditure, less interest payments, with the social sectors (education and health) taking at least 50 percent of this. During 2005, it is urged that the priority spending targets in the new PARPA (2006-2010) need to be revised so as to select a realistic target and avoid midstream changes in the measures used.

49. As in the short PAF, program budgeting is to be introduced in five of the major sectors by 2006. To achieve this objective, the Government intends to develop the methodology during 2004 and 2005.

50. An additional proposal for the period 2004-2006 is that the functional, territorial and organic classifiers need to be revised, for use in the budget and the budget execution reports. In addition the Government plans to introduce a source-of-funds classifier which will identify the source of funds for specific projects.

51. The budget for 2005 needs to be discussed with the sectoral ministries (particularly health, water and agriculture) and the donor community, to establish quarterly disbursement targets by MPF and donors, so as to allow a smooth flow of funds. (See also under service delivery, paragraph 71.)

52. The Government undertook in the short PAF to integrate the various instruments of planning and budgeting, during 2004. To implement this, the Balanço do PES will be further improved as a monitoring instrument, and a more comprehensible format will be developed for the Quarterly Budget Execution Reports (QBERs). In 2005, the QBERs will be published on the internet; the Balanço do PES will be harmonized with them and any differences explained; the Cenário Fiscal do Médio Prazo (CFMP) will be made a public document, and the headlines will be ready for the 2005 Joint Review.

53. The PAF (though not the short PAF) underlines the Government's objective of eliminating the so-called "off-budgets". The Government intends to continue to incorporate *receitas próprias* in the budget, establishing the legal basis for capturing these funds, focusing during 2004 on two ministries: Education and Interior (Migration). A study will be done in three specific areas to examine how to include "off-budgets" (*receitas próprias* or donor funds) and what effect this would have on recorded revenues and expenditures.

54. Finally, for the medium term there is a need to include in the PES/PAF issues of equity and coverage of spending in the provinces. It is anticipated that in the 2005 PES there will be targets regarding the disbursements to provinces.

55. **Auditing.** It is proposed that in the 2005 PES and the short PAF there should be measurable targets for (i) implementation of an action plan for the strengthening of internal audit functions, at the sectoral, provincial and, in due course, municipal levels; (ii) improvement in the timeliness, quality and coverage of external auditing; and (iii) more complete implementation of the recommendations of the audit reports in 2004 and earlier years. GoM will finalize a proposal for the institutional role and the functioning of the external audit by the end of 2004. The focus should be on: (i) how to strengthen parliamentary control and follow-up measures, including legal, disciplinary and other responses to instances of mismanagement and corruption; and (ii) the scope, timeliness, and reporting of audits. Implementation should be part of 2005 PAF. GoM and PAPs should agree on a close joint monitoring of the progress and outcome of these measures.

56. **Taxation.** The key objective of the Government as cited in the short PAF is to establish the Central Revenue Authority (CRA) by 2006 and to raise the ratio of revenue to GDP from 14.3% in 2003 to 15.2% by 2006. Regarding the creation of the CRA, a critical benchmark for 2004 is the submission of the draft law for the CRA to Parliament. In this process, the restructuring of tax administration is a priority intermediate stage, to be begun by implementing internal reform of DNIA, with a view to making it a semi-autonomous

director general (DGI). Customs administration is also in the process of strengthening internal management and institutional change for integration with DGI in the future CRA. Despite progress in implementing new direct taxes, strengthening the tax system needs to continue in 2004, in particular in consolidating the implemented taxes and reinforcing administration. It will be decisive to ensure financial and human resources for full operation of the new computerized system of taxpayers registration and tax collection system. Strengthening VAT implementation is an important issue, in particular improving efficiency in processing VAT reimbursement claims, a major challenge, to be addressed concurrently with further training for economic agents during 2004.

57. Critical action to be pursued on tax policy is: (i) the approval of regulations and procedures for implementation of the law for the CRA in 2005; (ii) the development of common information, communication and computerized systems for tax and customs administrations, also in 2005; and (iii) the effective establishment of the CRA with unified training and collection systems, in 2006. In addition, it was also agreed to continue with further capacity building in revenue collection, tax projections and modeling, and tax policy analysis, in particular tax incidence and effectiveness.

58. **Procurement.** As is indicated in the “short PAF”, the Government is committed during 2004 to approve a decree revising the procurement arrangements (including goods and services, public works and concessions) in accordance with international best practice, such as public bid opening and the creation of a regulatory body. It is proposed that implementation be part of the 2005 PAF. GoM and PAPs should agree on a close joint monitoring of the progress and outcome of these measures. Some “quick wins” may be available: the draft legislation could be presented for discussion by the end of May; selected procurement audits could be done in several ministries and their urgent recommendations implemented; and to speed up the reform, a National Commission for Procurement Reform could be set up, to operate until such time as the new regulatory body comes into being.

59. Looking forward to 2005 and 2006: the regulatory body for public procurement could be established in 2005. The strengthening of the independent appeal function for bidder complaints, within the Tribunal Administrativo, could occur in 2005. Audits of procurement in the five major ministries, on a random sample basis, could be done over the period 2005 and 2006.

60. The Tribunal Administrativo (TA) has the legal duty to carry out “fiscalização prévia” (pre-review) of all contracts. In 2004, a review of the legislation and the function of the TA will be carried out to identify how to ensure that the reviewing responsibility of the TA shifts to a randomly selective post-review regime. In 2004, the authorities should evaluate the possibility of establishing minimum threshold amounts for contracts due for submission to the TA, for possible application in 2005. The review of pertinent legislation and functions of the TA should also aim at strengthening the TA’s ability to handle bidder complaints and ex-post random audits of public sector procurement. The Government will prepare an action plan for execution in 2005 and 2006, to improve the procurement process and its review and audit procedures.

61. **SISTAFE.** The parties agreed that the plan for 2004 with gradual rollout was realistic and appropriate. Further development of e-Sistafe and e-CUT and their integration is urgent and should occur over the coming two to three months. Testing of the system to avoid future breakdown and disappointment by users is important at this stage. Similarly it is important that a recovery and backup plan and system be established and tested. There is a further need

to strengthen UTRAFE management. Some actions have already been taken, and with the recruitment of a second advisor from the IMF and the possible recruitment of an international project management advisor the problems should to a large extent be solved. It is important that the rollout in the MPF proceed no later than June, and that testing in MINED before the full rollout to other ministries takes place before the end of 2004 as planned, as this is needed also to test the IT systems in full production environment. It is crucial that a decree should be issued by June 2004 to revise Decree 17 to get in line with the current SISTAFE requirements.

62. For 2005 it will be realistic that rollout can happen to ministries covering at least 60% of the budget, while rollout in 2006 could be made to the remaining ministries. Rollout to autonomous bodies and municipalities may be delayed to 2007. On the other hand it is considered realistic, provided parallel development takes place, that the payroll and an asset management systems could be running towards the end of 2005. As for inclusion of off budget donor funded projects, the system contain the necessary facilities to capture these projects, and it should be possible already in late 2004 or early 2005 to start to integrate these projects, starting probably with UTRAFE and the joint donor fund itself.

63. **Debt management.** The target agreed upon for 2004 is that the new IT system for debt management should be installed, and development of a new debt management strategy should be finalized. Work on revising the directives should also start in 2004 and be finalized in 2005, after the new debt management strategy has been approved.

D. PRIVATE SECTOR AND BUSINESS ENVIRONMENT

64. **Financial sector.** The two key objectives of the sector are to: (i) strengthen the legal and regulatory framework, and (ii) improve access to financial services. The Financial Institutions Law will be passed and the Bankruptcy and Clean-up of Financial Institutions Law will be submitted to the Parliament, and the respective executive regulations aiming at modernizing the operational framework for the financial institutions (included microbanks) and the formal procedures to clean-up bankrupted banks will be adopted. To enhance accountability and transparency and to set higher and modern standards of supervision, capacity building will be developed at the same time that transitioning of the financial sector to international accounting standards (IAS) should be started. The chart of accounts of the banking system, insurance industry and social security will have to be adjusted to the IAS, and tax policy needs to be harmonized with implementation of IAS. In the area of transparency and accountability and following the Government commitment to investigate wrongdoing in the banking sector, the Banco de Moçambique in 2004 will mobilize and provide the necessary resources (human, material and financial) to the forensic audit of Banco Austral (BAu) that is to be commissioned through the Attorney General's Office (PGR). The forensic audit will be initiated in 2004 and is expected to be completed in 2005 with appropriate follow-up actions to be taken in due course. The Government will also continue to pursue recovery of loans from BAu. The Government will divest completely from the banking sector and will develop a strategy to regulate public enterprises holdings in the financial sector and, in particular, in the banking sector. Most of these actions should help create the right environment to improve access to financial services by the private sector, especially by micro, small, and medium enterprises and by unbanked households.

65. **Business climate.** The Government intends to submit to Parliament a revised Commercial Code by December 2004. Additionally, a Task Force to accelerate

reimbursements of the Value Added Tax (VAT) will also be established in 2004, while aiming at increasing flexibility in the labor market, in the beginning of 2004 the decree 57/03 was published and the revised version of the Labor Law will be submitted to Parliament in 2005. Furthermore, the Mozambican authorities intend to issue a decree targeted at regularizing property rights in urban areas through titling and enhancing the transferability of titles.

66. **Agriculture.** Indicators for 2004 are maintained, although evaluating them may be difficult, as no sector survey (TIA) is planned for 2004. The first reporting by MADER's Management Information System is expected for 2004. The indicator for "percentage of forestry concessions with approved management plan" will be adjusted to 22% for 2004. Impediments in the government system to bring more off-budget investments in the sector on-budget should be addressed. Reporting on off-budget investment projects in the sector through MADER should be improved. Based on existing indicators, improvements have been proposed for 2005-06. The Joint Review recognizes that the indicators are relevant to sector outcome and output, but are not all measuring actions for which the Government is exclusively responsible.

67. **Environment.** Although there is thorough treatment of environmental matters in the PARPA, there are no environmental indicators in the short PAF. In 2004 the following will be introduced: (a) MICOA to coordinate annual reports on the integration of environment issues in seven key economic sectors; (b) the adoption of a territorial planning law; and (c) territorial planning integrated into decentralized economic district planning (indicator is number of districts per year).

68. **Transport and communications.** Although the sector's contribution to growth and employment is stressed in the PARPA, it does not feature in the short PAF. Several important reforms are under way: the concession of the Sena railway is soon to be finalized; the contracting-out of management of the Maputo International Airport will be concluded; Linhas Aéreas de Moçambique will be restructured, the divestiture of TDM will be launched and the postal services company is developing a new strategic plan to improve its services.

69. **Roads.** The PAF (PES) indicators are maintained for 2004; these include some delayed roads rehabilitation and maintenance from 2003. Timely finance for maintenance and investment is essential, and some targets have been suggested for 2004 funding levels. The mid-term review of ROADS III will take place in June 2004, and the PAF/PES indicators for 2005/6 will be revised at that time.

70. **Energy.** Although energy is among the priority sectors in the PARPA, there are no targets in the short PAF. In order to scale up access to modern energy, the Government plans to: (i) ensure that FUNAE is adequately financed by 2005; (ii) restart intensified substitution of fuel wood and charcoal by cleaner fuels by 2006; (iii) raise availability of diesel-based electricity in remote areas to 75% by 2006; (iv) rationalize the roles and responsibilities of energy institutions by 2005; (v) commence a process of distribution of natural gas in industries and households in the Maputo area by 2006; (vi) develop a framework to ensure increased benefits from mega projects by 2006; (vii) adopt an appropriate system to relate outputs to outcomes resulting in understanding of the linkages between energy supply and poverty alleviation by 2005; and (viii) initiate the restructuring program for EdM in 2004.

E. SERVICE DELIVERY

71. **Cross-cutting issues.** The service delivery sectors are particularly vulnerable to unpredictable disbursements. Both the amount and the timing of the funds received have a considerable impact on service delivery. It is suggested that both donor and government disbursement patterns be monitored during 2005 and subsequent years, and that targets be developed as described in paragraph 51.

72. **Education.** In order to reach the targets set forth in the EFA/MDG goals, such as universal access and completion of primary education (7 years of education) and gender parity, the sector will rely on the ESSP II as the overarching policy and investment instrument to guide all interventions. Key actions to reach this goal are to: (i) improve sector planning and performance mechanisms through the definition of the policy and investment framework for the education system, (ii) increase the completion rate in primary education (EP1 and EP2) through, amongst others, the introduction of the new curriculum, the implementation of the pre and in-service teacher education programs, (iii) ensure that funds allocated to the sector are fully and timely disbursed and that efficiency of resource utilization is improved through, amongst others, the continuation of the *Apoio Directo às Escolas* (ADE) program, the implementation of the pilot phase for the low cost school construction program, and the operationalization of FASE (pool fund), and (iv) improve the efficiency and effectiveness of post primary education through ensuring that interventions in the ESSP II are included and costed. In light of this, the targets for the reduced PAF 2004-2006 had to be slightly adapted to reflect progress in sector performance, as envisioned in the ESSP II, as well as the objectives outlined in the PES 2004. The main targets of the reduced PAF are: (i) the revision and approval of ESSP, (ii) the implementation of ESSP II, as well as its positive evaluation at the Annual Review meeting, and (iii) the implementation of national priority programs including the in-service teacher education program (CRESCER), ADE and the pilot program on low cost school construction. The indicators to be monitored for EP1 are: (i) completion rate, (ii) gross enrolment rate, and (iii) net enrolment rate. All indicators will be disaggregated by gender. A PSIA is being done on the impact of reduction of primary school fees on schooling access.

73. **Health.** It is recommended that the sector continue to emphasize expansion of services, child vaccination, maternal and infant care, and control of endemics, in particular malaria, as the core of its activities. The sector plans set out (i) the current priorities, (ii) the main linkages between resource allocation, operational activities and the main sources of financing for the activities, and (iii) the linkages between planning, accounting and monitoring, which makes the plans a useful management tool for implementing activities. It is recommended, however, that the sector plans be more specific on operational priorities and be more explicit about the choices on how to use resources and set priorities according to resource availability, given that there may be slippages in the flow of funds. A new set of indicators has been proposed to replace the existing indicators of the PAF as these will better reflect performance and avoid the problem of an indicator's deteriorating at a time when the quality of service is actually improving. The monitoring system in place will be able to monitor the new indicators, all of which are part of the PES 2004 and of the long PAF matrix. The new indicators are: (i) the ratio of outpatient consultations per inhabitant per year, which is a globally accepted indicator of development of the health system, (ii) the proportion of institutional deliveries among expected births, which measures access, confidence and maternal health services, and (iii) the vaccination coverage of DPT3-HepB 3-23 months, which is a key indicator of actions to reduce child mortality.

74. **HIV/AIDS.** It is recommended that the human and institutional capacity of the CNCS be strengthened by: (i) refocusing the CNCS on its core functions; (ii) filling vacancies in its personnel roster (including international advisors); and (iii) simplifying its financial, procurement and management processes (including through harmonizing funding mechanisms) to enable it to transfer resources to front-line service providers – including in particular civil society organizations – in a much more efficient manner than it has to date. To help improve the flow of funds, it is suggested that CNCS be present in discussions with MPF and MISAU on budget allocations, priority setting, etc., which implies developing closer links branches of Government. CNCS could also work in a complementary fashion with ministries that are implementing sectoral HIV/AIDS plans, and especially with MISAU, as its care and treatment program will add considerable leverage to the national response. In addition, as the national response rolls out, it will become increasingly important that it be truly multisectoral in nature. Finally, as an input to an updated PARPA, in or about 2005, it is recommended that the Government complete a PSIA-type study examining the macroeconomic impact and the opportunity cost (for preventing HIV/AIDS or undertaking other activities) of the provision of antiretroviral therapy through the public system.

75. **Water and sanitation.** As in the short PAF, the core of activities will continue to focus on enhancing (i) access to supply of water (both in rural and urban areas) and (ii) access to sanitation (rural and peri-urban areas) as these are in line with the MDGs and reflect the performance of the sector. It was noted that the present monitoring and evaluation system needs to be improved. The improvement and design of such a monitoring system needs to take into account the existing capabilities. It was agreed that priority should be given to the implementation in 2004 of the rural water transition plan, in particular to the supply chains, the privatization of EPARs, the management models for small systems, and the experimentation of new technologies. In 2005 and 2006, for rural water supply and sanitation, the process of decentralization and deconcentration of programs should be continued, as well as the building of capacities at the provincial level and starting the privatization of the EPARs. With respect to water resources management, it was agreed that (i) a strategy should be completed and its implementation started, (ii) priority should be given to the rehabilitation and modernization of the hydrometeorological network, and (iii) the establishment of the nucleus of the regional water administrations should occur in the center-north and north of the country.

V. FIDUCIARY RISK ASSESSMENT

76. The preliminary conclusion from the joint fiduciary risk assessment is that Mozambique has moved from a very poor financial management system in the 1990s to a situation where considerable progress has been made in the areas of planning, budgeting and general systems development. However, systems are still poor. Provided that the reform agenda and notably Sistafe will materialize, the perspectives are positive for further substantial improvement in public financial management, in the future.

VI. PROGRAM AUDIT

77. **Financial audit.** The group recommends that the joint review accept the financial statements and the external audit opinion and report on the program for 2003. However, the MPF will follow up on the recommendations of the auditor, as follows:

- proper formal bank reconciliation procedures on the transitory account will be instituted and published quarterly in the Report on Contravalores;
- the late transfers and mistaken transfers of funds will be investigated and the payment of interest demanded where BdM has been at fault.

78. The auditor commissioned to do the complementary audit of the transfer of funds from the MB10 account into the Treasury's State Budget Account stated that this was not possible for them to do, so it has not been demonstrated satisfactorily that the donor contributions through the program have been fully transferred to the latter account. The group recommends that the donors accept the intermediate demonstration by MPF that between November 2000 and August 2002, the amount of 2,95 trillion MT was deposited into MB10 from program disbursements by donors, and 5,55 trillion MT (188%) was deposited into the State Budget account from MB10 over the same period. The group members recommend however that the IGF be commissioned to contract an external independent auditor to verify this properly and that a full report be made available by MPF to the donors by the mid-year review in August 2004.

79. **Value-for-money audit.** The development of this auditing modality in IGF has thus far been a success. The group proposes however that the annual audit be initiated early each year to enable delivery of reports in time for the Annual joint review in March the following year.

80. The group further recommends that the full follow-up of the V-f-M audit on the medicines distribution system be carried out by IGF and the findings reported by end-2004. The possibility that some of the auditees have not received this report needs to be resolved.

81. **Audit of the CGE.** The group noted with satisfaction that this essential audit will be accelerated in time to provide the TA report within the year following the year reported on.

VII. LEARNING ASSESSMENT

82. Some of the major advances in this year's event identified by participants in the JR2004 included (a) greater opportunity for specialized discussion in technical teams, particularly those which were more closely integrated with established sectoral working groups, (b) greater ability for government participants to enter into dialogue with donors and particularly to challenge mistaken opinions and unrealistic expectations, (c) the ability of teams to link up in thematic groups to begin addressing cross-cutting issues, although this aspect could be enhanced further in future events. The integration and active involvement of the World Bank in this year's review was viewed positively by both other donors and government.

83. Common concerns about the JR 2004 include (a) the heavy burden of an extended period of dialogue (over two weeks plus preparation meetings) on the time of key government officials, (b) the need for donors to co-ordinate their policy positions in advance of entering into dialogue with government, and to seek in future to identify more systematically lead donors on specific areas of the reform agenda, and (c) the effect that attempting to achieve consensus on all issues in the Aide Mémoire had on opportunities for clear expression of divergent views.

84. There is also still concern that the degree (and level) of participation by a range of important government agencies was too limited and that a broader range of views on government performance, including those from provincial and local levels, should be integrated into future events. Several participants also commented upon the need to provide enhanced opportunities for (indirect) inputs into the joint review process from other domestic stakeholders, including the National Assembly and civil society. The roles and responsibilities of observers to the Joint Review process also need to be clarified.

85. Some specific issues connected with program performance that need to be addressed in the coming year include (a) the need to resolve continuing administrative problems which have delayed disbursements of program funds, (b) a clear commitment from both government and donors to seriously address the effects that “off budget” external resource flows have on the integrity and completeness of Mozambique’s budgetary planning and execution systems and (c) further work to integrate the joint review into a planned and rationalized annual cycle of dialogue between government, PAP’s and other development partners in order to prevent duplication, focus debate upon key policy issues and minimize transaction costs for government. Specific recommendations on these issues will be included in the forthcoming learning assessment report.

Monitoring Donor Performance

86. A key requirement of the new MoU is an annual report by PAP’s on their performance against commitments to provide their program aid (direct budget support and balance of payments support) more effectively, predictably and with increased transparency of terms and conditions, amongst other objectives. One of the main outputs of the initial phase of the learning assessment has been the design of an agreed performance assessment framework to measure future donor performance against these commitments. Progress will be measured in particular in the (1) alignment with Mozambican instruments, processes and systems of financial management; (2) predictability of donor flows; (3) transparency of conditions and funding; (4) harmonization by eliminating bilateral requirements; (5) reduction of transaction costs for the GoM; and (6) enhancement of the capacity of the GoM to meet its commitments. The Program Aid Partners Performance Assessment will include an overview on the cooperation portfolio of the PAPs in Mozambique, the aid modalities applied and changes to be expected in the spirit of this MoU. In particular, on-budget and off-budget flows will be made transparent. In order to enhance credibility, the annual report will be commissioned out to an independent provider.

87. A questionnaire is being prepared in order to undertake a baseline study on the 2003 levels and the 2004/2005 planned steps for improvement of donor compliance with best practice principles during May/June 2004. Answers by the PAPs and the GoM will be the primary source of information. Further inputs may be sought from MoU observers and third parties as deemed appropriate. The PAPPAs baseline and later reports will build upon existing assessments undertaken in Mozambique, as well as best practice and lessons learnt in the context of the Development Assistance Committee (DAC) and the Strategic Partnership with Africa (SPA). The results of the baseline study will be presented to GoM and PAP’s at the mid-year review in August 2004. PAPs will release the PAPPAs report to the public domain. In particular, GoM may pass it on to Parliament and the Poverty Observatory. The baseline study will be updated annually in order to monitor the progress of individual PAP’s towards meeting their commitments under the MoU.

APPENDIX 1. PERFORMANCE ASSESSMENT FRAMEWORK – SHORT MATRIX (“SHORT PAF”)

Government Program – PARPA			Priorities		Indicators	Targets		
Strategic Objectives	Areas	Sub-areas	Objectives	Actions		2004	2005	2006
Poverty reduction through privileged orientation of public services to the most needy populations	Education	Primary Education	Universal education: - increase access and retention - increase quality of education - reduce gender disparities	Implement the 2004-2008 Strategic Plan	EP1 net enrolment rate - total	72%	76%	80%
					EP1 net enrolment rate – girl	69%	74%	78%
	Health	Mother & Child	Maternal mortality reduced	Increase offer of obstetric care	Proportion of institutional deliveries among expected births	47%	49%	51%
					Infant mortality reduced	Increase coverage of the Extended Vaccination Programme	Coverage R >1 year DPT3 and HepB 3-23 months	95%
			Expanding access to essential health services	Expand access to quality treatment for communicable and non-communicable diseases	Utilization rate - consultations per inhabitant per year	0.91	0.93	0.94
	HIV- AIDS	CNCS	Infection and mortality rates reduced	Start implementation of PNCS II Reduction of vertical transmission Increase access to antiretrovirals	HIV-AIDS prevalence rate in adults	14.9%	15.6%	16.1%
					# HIV+ pregnant women and neonates receiving PMTCT Prophylaxis	8,000	15,000	20,000
					# PLWHA on antiretrovirals	4,000	10,000	29,000
	Infra-structure	Roads	National network improved	Rehabilitate and improve the national network; Improve the procurement system and execution of works and services	Kms. Rehabilitated Kms Periodic Maintenance Kms Routine Maintenance	813 1,392 13,578	1,160 2,062 14,343	705 2,001 15,247
		Water	Access increased	Open well and make new connections	% Population with access to potable water	41%	43.4%	45.8%
		Sanitation	Access increased	Improved latrines, septic tanks	% Pop with access to sanitation services	35%	37%	39%
	Promotion of economic development, with priority to the rural areas and reduction of the regional unbalances	Agriculture and rural development	Agricultural Services	Promotion of agricultural production	Increase coverage of agricultural outreach services	% agricultural farms assisted by the rural outreach services and/or animal farming during the previous 12 months (public, private and NGOs)	20%	21%
Facilitate access to funding					Micro-credit clients	80,000	90,000	100,000
Stimulate market mechanisms					% of crop production actually marketed for a selected number of relevant crops	54.5%	57%	59.5%
Manag. of Natural Resources		Access to land	Promotion of sustainable exploration	Simplify mechanisms of obtaining the rights for land tenure	N° of processes authorized in 90 days	2,500	3,000	3,200
				Promote sustainable usage of irrigation techniques	% of small and medium farms that use irrigation techniques	11.5%	12%	12.5%
			Stimulate sustainable commercial management of natural resources	% concessions approved with application plans	22%	30%	40%	

Government Program – PARPA			Priorities		Indicator	Targets		
Strategic Objectives	Areas	Sub-areas	Objectives	Actions		2004	2005	2006
Develop. of education	Education		Universal primary education: - increase access and retention - improve quality of education	Implement 2004/08 strategic Plan: - implement low cost classroom construction - implement teacher training strategy	Implement national programs CRESCER and ADE, and pilot program for low cost construction	Evaluate implementation	Evaluate implem.	Evaluate implem.
					Strategic plan 2004/08 approved, implemented, and evaluated	Approved	Implemented and evaluated	Evaluat.
Creation of favourable environment for private sector action	Ad-hoc legal reforms			Amendment of the Labour Law and Submission to the Assembly of the Republic of the Amended Labour Law.	Published decree 57/03	Law submitted		
				Submit to parliament revised Commercial Code	√			
				Approve the regulations on the licensing of commercial and industrial activities	√			
				Approve the inspection regulations for commercial and industrial activities	√			
	Macro-economic and financial policies	Financial system	Strengthen accountability in the banking sector Improve financial intermediation including for micro, small, medium enterprises and unbanked households:	Conduct forensic audit of BAu commissioned through PGR	Audit initiated.	Audit finalized.		
				Implement IAS on the financial sector (incl. tax harmonisation)	IAS strategy presented	Implementation	Implem.	
				Strengthen institutional capacity of BdM and other regulatory authorities	LFL submitted to Parliament; LICEF regulations prepared	LFL regulations prepared.	Implem.	
				Divest of public equities in banking sector	BAu Gov shares sale process initiated; Strategy for BIM Gov. shares sale and public enterprises equity strategy defined. Chart of Accounts prepared	BIM and public enterprise equity strategies implemented;	Implem.	
				Reform insurance sector		Pension fund law revised		
	Reform of the State Financial Administration System		Upgrade efficiency and effectiveness of the management of State funds	Spending in PARPA priority sectors at least 65% of total expenditure less interest payments. Of the 65%, at least half in education and in health.	65%	65%	Indic in Parpa II	
				Implement budgeting through programs, starting in 5 sectors, among which education and health	Develop methodology and choose sectors	Prepare budget 06	Exec. 5 sectors	
				Implement the Sistafe	DPPFs + MPF, MINED pilot	60% of budget in Sistafe	100% of budget	
Tax Reform		Simpler and more covering, fair and balanced taxation	Create the Revenue Authority by 2006	Submit draft law to parliament	Approve reg. and proced.	Estab. CRA		
			Budget revenue collection (% of GDP)	14.7	15	15.3		
Procurement		Creation of a transparent and efficient procurement system	Approve Decree based on international recognized principles on the regulation of contracts for public works, commodities, services and concessions	√				
Audit		Improve coverage and function on internal and external audit	Review functions of internal and external audit institutions	Review	Start implementation			

Government Program – PARPA			Priorities		Targets			
Strategic Objectives	Areas	Sub-areas	Objectives	Actions	2004	2005	2006	
	Good Governance, Legality and Justice (Fight corruption)	Planning and Monitoring	Harmonization of medium and long term instruments	Insure integration among PES, PARPA and CFMP	√			
				Adapt the “Balanço do PES” to be the primary instrument for PARPA Monitoring	√	√	√	
		Public Sector Reform	Deconcentration/Decentralization	Deconcentration	Introduce District Planning - number of districts	37	53	67
					Approve regulation of the Law of Local State Organs and implement	Approve regul. and implem.		
				Decentralization	Prepare policy and strategy for decentralization		Prepared	Approved
					Restructuring plans agreed and implementation started in the areas of Health, Education, Agriculture, MAE (Min. Of State Admin.), MIC and MPF		Plans agreed	Implem
	Rationalization and professionalization of structures and processes	Government approves Medium Term Pay Policy and implementation started		Policy approved	Implem			

Government Program – PARPA			Priorities			Targets		
Strategic Objectives	Areas	Sub-areas	Objectives	Actions		2004	2005	2006
			Combat corruption	Anti-corruption law		Passed		
				Undertake a study on Good Governance, corruption and provision of services, and develop and implement anti-corruption strategy		Study undertaken	Approved strategy	√
				Survey on corruption in the justice system (proposing solutions for procedural simplification and other causes of corruption) and recommendations implemented	Survey finalized and results published	√	Publish	
					Follow-up study			√
				Action Plan approved and implementation started			√	
				Increased Government resources (particularly upgraded staffing) allocated to Anti Corruption Units		√	√	√
				Consolidate peace, national unity, justice and democracy	Justice sector reform	Improve the efficiency in the provision of services by the justice sector	Increase the number of judicial sentences	Increase in % (% to be submitted by the judiciary)
Reduction in number of prisoners awaiting accusation and trials	Maximum % of prison population awaiting trial	65%	57%				50%	
Simplification and faster processing of judicial cases and legal legislation	Presentation of a long-term reform program including a system of planning, budgeting, and monitoring that provides priority to the sector services	Submitted to the Council of Ministers	√					
	Review the following legislation: civil procedure, the law of judicial organization including the legal basis for introduction of commercial sections, penal procedure, notary, civil registration, penal code and prison legislation	Submitted to Parliament				√		

APPENDIX 2. AUDIT OF THE JOINT DONOR PROGRAM 2000-2003

The joint donor program (JDP) and the succeeding joint program (JP) specify three audit modalities:

1. Financial audit

The flow of funds from the donors/PAPs into the principal state budget account (BuAc) is to be audited annually.

The audits covering from the start of the JDP in November 2000 until end-2002 were discovered in 2003 not to have fully completed the audit trail. The Terms of Reference were therefore revised in 2003 to specify the audit of the last step of the trail more exactly. (These ToR should serve for the financial audit of the JP from 2004 onward). A supplementary audit of the last step, to document the receipt of the funds by the BuAc 2000-2002 from the metical countervalue deposit account, was then commissioned. The MPF agreed to the auditors examining the receipts of the BuAc (which by law is audited only by the TA). However, the auditors stated that it was not possible to track the funds over this step directly in the period November 2000 – August 2002, during which the donors' disbursements part-fed the general MB10 countervalue account. (Deposits in to MB10 came from many sources besides the JDP, and the MPF transfers from MB10 to the BuAc did not mirror the size of the incoming amounts). As from the agreed opening of a specific transitory account (TrAc) for the JDP in April 2002, only JDP funds were deposited and then transferred out, so the correspondence with the deposits into the BuAc can be verified. The auditor could track the five transfers made from the TrAc into the BuAc as of August 2002. The operation and documentation of this procedure could be improved, however.

The JDP audit group requested MPF's documentation for 2000, 2001 and 2002 to check that the amounts debited to MB10 and credited to BuAc were at the least equal in sum to the amounts deposited by the JDP donors into MB10 in the same year under the JDP. This would not prove that all the donor funds were completely transferred from MB10 and received into BuAc, but would give reasonable grounds for presuming so. Photocopies of documentation indicating this relation were delivered by MPF on 2nd April.

The audit for 2003 is more complete and accurate and the auditors testify that using the bank bordereaux and account balance statements they can verify that the funds deposited into the TrAc have been deposited over to the BuAc, with the exception of a year-end closing balance in TrAc of 315,6 bn MT. Nonetheless, a number of errors in bank operations and two serious delays in bank transfers beyond the specified time of 2 working days took place during the year, which carry their costs, and it is necessary for the MPF to ensure their full reimbursement by BdM where BdM was at fault. It emerged that more reliable monthly bank reconciliation procedure is needed. There is considerable room for improvements to be made at MPF and BoM in the administration of the budget support/BoP funds. The following need to be followed up:

- corrective measures on defective bank transactions and losses
- audit of the MB10 – BuAc transfers 11/00 – 08/02 (to be contracted by the IGF)
- bank reconciliation statement should be included in the Report on Contravalores.

2. Value for money audit (VfM)

The JDP provides that one (sub)sector of relevance for poverty reduction will be subjected to a VfM each year by the MPF's IGF, to provide an insight into the efficiency of use of budget funds for reducing poverty. The first VfM into the medicines distribution system was carried out successfully over 2002-2003, reporting fully at mid-2003. The audit was a successful learning experience for IGF and achieved a good standard. The IGF identified numbers of system failures and made a considerable number of recommendations, which it has planned to follow up but has not yet managed to follow up on all of them. The IGF declares its intention still to do so.

The second VfM was decided to be carried out on the Roads sector, and started late in 2003. The IGF made an initial presentation to the PAP's during the JR. The scope and quality of work appear satisfactory, but the IGF will not be able to deliver the full report until end-May 2004. This type of audit is a welcome operation in itself, and should be fully institutionalised. For the purposes of the JP, the identification of the area, the planning process, the agreement on financing, and the contracting of expertise need to be loaded closer to the beginning of each year so the VfM is finished in time for the JR.

3. The audit of the general state account (CGE)

The Tribunal Administrativo (TA) has the task in law to appraise and audit the CGE annually. This is agreed by all parties to be a fundamental and essential operation, which is entirely indispensable for budget support to be able to be given. However, the MPF compilation of the CGE has hitherto taken most of the year n+1 after the year n being accounted for, and the TA has taken a significant part of year n+2 to audit it and deliver its report to Parliament. Thus its reports, although substantial and of good quality, come altogether too late for practical use by the JDP in assessing the financial management of the Budget. This periodisation has been retimed in law and it will become obligatory for MPF to issue the CGE for year n by May in n+1, and for TA to deliver its audit report on the CGE to Parliament by October in n+1. This will make both documents much more relevant for the appraisal and evaluation of the JP in future.

4. Fiduciary risk assessment (FRA)

On a pilot basis, the JP has this year been assisting MPF to set into operation an annual FRA, a species of financial systems fiability audit. The pilot is participated by the IGF and the aim is to institutionalize it on an annual basis. The preliminary findings of the 2004 FRA are sketched above.

The PAP's consider all four of the above institutionalised follow-up mechanisms to be relevant, feasible and essential for the budget/BoP support program.