

JOINT REVIEW – 2005

Aide-Mémoire Final version

May 12, 2005

I. INTRODUCTION

1. On May 12, the Government of Mozambique and the Programme Aid Partners (PAPs)¹ concluded the annual Joint Review of the Government's implementation of its development programme and of the performance of PAPs. The review process involved the participation of civil society in the working groups. The review consisted of a backward looking exercise at performance over 2004, and a forward looking part that articulated some key issues and recommendations for 2005 and 2006. The review was based on Government plans and reports, as reflected in the Action Plan for the Reduction of Absolute Poverty (PARPA), the Economic and Social Plan (PES) 2004, including the Performance Assessment Framework (PAF) 2004 and the Budget or *Orçamento do Estado* (OE), the 2004 Government reports on Budget Execution and the PES, as well as an independent report on the performance of PAPs.

2. Twenty three working groups, distributed over six thematic areas, consisting of Government, PAPs and civil society representatives, completed detailed reviews in assigned areas; their reports are included as annexes to this Aide Mémoire (AM).² The overall assessment is presented in Section II. The detailed assessment of Government performance in 2004 and the recommendations for 2005 and 2006 are presented in Section III. The assessment and recommendations relating to PAPs performance are described in Section IV. The 2004 PAF matrix with the assessment of the defined targets of performance is given in Annex 1. Annex 2 presents the PAP Performance Assessment Matrix. Annex 3 includes the sector working group reports.

3. The review took place a few months after the third General Elections which were marked by a peaceful transition to the new Government. PAPs welcome with satisfaction the statements and actions taken by the new leadership to inject a new spirit of dynamism and accountability into the public sector.

II. OVERALL ASSESSMENT OF PERFORMANCE IN 2004

4. Overall, Government PES/PAF performance in 2004 was satisfactory, albeit with significant variation across the range of PAF targets. Performance relating to the

¹ Participating external partners included Belgium, Denmark, Canada, the European Commission, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Sweden, Switzerland, the United Kingdom and the World Bank. These 16 PAPs (G16) support a joint programme for providing budget support and have signed a Memorandum of Understanding with the Government. Observing external partners included: Japan, Spain, the United States, UNDP, the International Monetary Fund and the African Development Bank. Details of participating civil society organizations are included in the list of working groups.

² A list of all working groups and thematic areas is attached to this AM.

implementation of critical cross-cutting and structural reforms (notably in Public Finance Management and Governance) is a cause for concern. All partners agree that the incoming Government now has a unique opportunity to drive forward progress on these second-generation reforms and to use the revision of the PARPA to further embed these processes in Government policy across the board. The PARPA process will also provide an opportunity for the Government to develop a clear policy on external assistance. PAP performance remains mixed with regard to aid effectiveness. Progress has been made, particularly in terms of alignment and harmonization. Weaknesses were more pronounced in the area of transparency and less progress was noted in improving predictability and in reducing the Government's aid-related administrative burden.

5. The Mozambican economy continues to grow strongly and fairly stably with a real growth rate of 7.2% and inflation below forecast, at 9.1%. Encouragingly, the growth structure remains broad, with the agriculture sector seeing a real growth rate of about 9%, and the household survey shows that growth has contributed positively to poverty reduction. The monitoring of the PARPA has improved and there was some progress against the key PES/PAF indicators of ensuring integration of the PES, OE and CFMP and strengthening the BdPES. Spending in priority sectors was below the target of 65% but considered acceptable at 63.3% of total expenditure (preliminary data), of which 50.4% was in education and health (thereby attaining the 50% PES/PAF indicator). Performance against PES/PAF targets in public service delivery can be considered positive overall. In education, performance was broadly on-track. In health, positive progress was made both in PES/PAF and Millennium Development Goal (MDG) indicators. Although the 2004 PES/PAF targets were met, HIV/AIDS remains one of the greatest threats to Mozambique's development and a stronger and better coordinated gender sensitive multi-sectoral response is needed. Water sector coverage targets were achieved to a large degree. In terms of the environment for private sector development, progress in PES/PAF indicators was varied, with progress in the areas of financial sector reform and infrastructure services. Critical steps have been taken in areas of cross-cutting reform: SISTAFE, with the initiation of implementation in the Ministry of Finance; tax, with institutional development and steps to create the Central Revenue Authority (CRA); internal audit, with the revision of its functions; and decentralization.

6. There are, however, important areas where progress against the targets in the PES/PAF has not been satisfactory. These include key governance-related targets, particularly: (i) the absence of clarification regarding how to deal with external audit indicators; (ii) procurement reform, where considerable delays were noted (iii) legal and judicial reform, where stronger Government commitment is essential to accelerate progress; and (iv) corruption, with specific concerns raised about the ongoing delay in the release of the report of the corruption survey and the low ratio between concluded investigations and reported cases. A further central concern for Government and PAPs was the failure to produce the 2004 Public Financial Management Assessment in time for the Joint Review. Performance in revenue mobilization was disappointing, with the PES/PAF target for revenue relative to GDP missed by 1 percentage point. Disbursement constraints, of both internal and external funds, continue to hamper performance of sectors, provinces and districts, although the flow of funds improved in 2004 in comparison with previous years. In the PARPA priority sectors, the budgeted investment expenditures were substantially underspent. In public sector reform, preparatory work has been done but there is as yet limited discernible impact on service delivery. Performance relating to the environment for private sector development remains mixed, with poor

performance against two PES/PAF indicators for the financial sector, namely the submission of the bankruptcy law to Parliament and the regulation for participation of public companies in the financial sector, and some progress, albeit delayed, in the Amendment of the Labour Law, the Commercial Code, and on regulations for licensing commercial and industrial activities.

7. Real progress needs to be made in the areas of public financial management and governance if Mozambique is to sustain growth and poverty reduction and meet the PARPA and MDG targets. For the same reason, greater attention must also be given to addressing the cross cutting issues of gender, HIV/AIDS and the environment. The government is aware of these challenges and expectations are positive, but action now needs to be taken. The Joint Review identified the following main priorities for ensuring achievement of the 2005 PES/PAF targets: (i) Government needs to identify indicators for the monitoring of external audit; (ii) approve new regulation on public procurement based on internationally recognized principles, begin implementation of the required institutional changes and strengthen capacity; (iii) accelerate progress in the effective implementation of legal and judicial reform and strengthening the rule of law; (iv) successfully roll-out SISTAFE, including external funds currently off-budget; (v) strengthen the dialogue between the MF and the sectors to ensure improvements in budget execution with regard to delays in disbursements and their prevention; (vi) consolidate tax reforms and implementation of measures (strengthening administration) to recover revenue and broaden the tax base; and, (vii) publish the results of the corruption survey.

8. **PAPs** made progress in improving the effectiveness of programme aid, particularly against core MoU commitments in the areas of alignment and harmonisation. Weaknesses were more pronounced in the area of transparency and less progress was noted in making PAP aid more effective in the broader sense, particularly in improving predictability and reducing the Government's aid-related administrative burden. Government and PAPs have therefore agreed to make improving the effectiveness of the PAPs' overall portfolio a priority. Sector processes and capacity strengthening programmes must be better aligned with the Government's cycle; aid reporting must be improved and aid better integrated in the Government's budget, and; faster progress is needed in reducing the Government's aid-related transaction costs, including through reducing aid fragmentation. The number of MoU PAPs has now risen to seventeen. All PAPs are urged to improve the overall aid effectiveness in the spirit of the MoU and the recent Paris Declaration. Government intends to include an aid policy statement in the elaboration of the PARPA II.

9. The Joint Review found that satisfactory progress has been made, giving a reliable basis for PAPs to continue programme aid and direct budget support.

III. ASSESSMENT OF GOVERNMENT PERFORMANCE IN PARPA IMPLEMENTATION IN 2004 AND KEY RECOMMENDATIONS FOR 2005

A. Poverty and Macroeconomic Management

Performance in 2004

10. Overall progress is satisfactory. The Mozambican economy continues to grow strongly with the rate of inflation coming down to a single digit. Improvements are registered in integrating the PES, OE and CFMP and in strengthening the *Balanço do PES* (BdPES) to monitor the PARPA. Significant improvements have been made in quantitative poverty analysis and dissemination. Steps to improve the monitoring system are also noted.

11. Growth and poverty performance are quite robust. Real GDP growth was 7.8% in 2003 and is estimated at 7.2% in 2004, reflecting a slow down in construction related to the completion of a number of private sector mega projects as well as a decline in fishing production. Growth in most of the sectors continued to be buoyant, including agriculture (8.9%), transport (16.4%), government services (9.4%) and mega-projects (15.4%). The end of period inflation rate declined to 9.1% (from 13.8% at end-December 2003), despite a sharp rise in petroleum prices. The banking system has reduced its vulnerability as the share of non-performing loans has decreased. Mega project-led exports have contributed to a significant decrease in the trade deficit, which coupled with higher-than-projected donor support and private capital inflows, boosted reserve accumulation to 4.8 months of imports (including imports for megaprojects). This contributed to a strong real appreciation of the Metical, reversing the depreciation trend of the past four years. This appreciation is in line with the changes in economic fundamentals characterised by a sharp increase in exports and capital inflows. Fiscal performance was below expectations with the collection of revenues lower than programmed by about 1 percentage point of GDP (even lower than the GDP percentage in 2003), which contributed to the domestic primary deficit target being missed by 0.7% of GDP; the deficit outturn was 3.8%. The composition of growth indicates that its base continues to be broad and should have contributed to a further reduction in the poverty level; this can only be confirmed when a new household survey is undertaken.

12. Monitoring of PARPA has improved. There was some progress against the PES/PAF indicators relating to the integration of PES, OE and CFMP using the single process methodology (*processo único*) and strengthening the BdPES. The 2004 PES and OE are a good representation of improved linkages between core actions, outputs and outcomes to be achieved towards the implementation of the PARPA. The CMFP defines the base framework for 2004 and gives a perspective for the period 2005-2008 but its dissemination to the main Government ministries is still weak. The Government has included the CFMP in the 2005 budget. The separation of Planning and Finance raises concerns and could have implications for the *processo único* methodology. The BdPES is a better reflection of the PES implementation but still needs to provide more information on main policy developments and issues. In addition, the sector and provincial monitoring systems are not yet fully harmonized with the BdPES preparation. Although the relationship between the PES and OE has improved, it is still weak and needs to be strengthened. This mainly covers the identification of unit costs, improved budget comprehensiveness, with inclusion of off-budget items, and the beginning of budget programming.

13. On poverty analysis good progress has been made with high quality reports produced in 2004 on various aspects of poverty, for example poverty determinants and profiles, inequality, and comparisons between the two most recent household surveys. These surveys provide reliable information on poverty analysis but ways need to be

found to allow for shorter-term analysis and improved linkages between the PES and the PARPA. For this reason the forthcoming QUIBB survey results are eagerly anticipated. According to the poverty analysis, all groups in society, including the poorest, should have benefited from economic growth. In addition, inequality in real consumption between provinces and regions has diminished. However, the gains recorded hide the complexity and diversity of the way in which poverty affects different groups in society, and gender, geographical and other disparities persist. For example, some key groups, including female-headed households, orphans and vulnerable children, have not benefited fully from the gains in poverty reduction. The levels of chronic malnutrition (stunting) are also very high, with 41% recorded in 2003 among children 6 to 59 months old. To improve the understanding of these issues, and to promote the mainstreaming of food security and nutrition across the sectors in the context of the PARPA II preparation, further work, including qualitative analysis, still needs to be done.

14. Gender inequality is costly for development. Women's limited economic opportunities, participation and roles are among the key determinants of poverty. The relatively high prevalence of **HIV/AIDS** also has a critical impact on poverty. The treatment of these issues has been variable in the PARPA, BdPES and OE. There is little mention of gender inequality in the PARPA and this issue has not been analysed in the BdPES or reflected in the OE. Several critical actions have, however, been taken towards the setting up of an institutional framework to promote gender equality, including the design of a national action plan and the preparation of a National Gender Policy, though this is yet to be approved by the Council of Ministers. Though HIV/AIDS was addressed fairly comprehensively in the BdPES, it has had little visibility in the PARPA and the OE allocation to HIV/AIDS is still low and in fact has fallen in real terms.

15. The targets for **environment** set out in the 2004 AM have not been fully achieved. The expected report assessing the status for integration of environment into selected sector ministries has not been prepared. A territorial Law has been drafted, but not yet approved by Parliament. Discussions are ongoing between MICOA and MPD on how to integrate the territorial planning with the district development planning, concrete pilot projects will be initiated in 2005 and the necessary regulatory measures initiated. It is of concern that unsustainable exploitation of natural resources may be undermining sustained economic growth. In urban centres, problems regarding sanitation and solid waste are growing. There is insufficient information to provide a full overview on the state of the environment and its relation to economic and social development.

Recommendations for 2005 and 2006

16. Growth and poverty reduction:

- Economic growth in Mozambique needs to continue to be broad-based to impact upon poverty reduction. As the majority of Mozambicans depend on the rural economy, it is particularly important that the country has, and implements, a comprehensive and coherent rural development strategy that focuses on the development of agricultural and all other sectoral activities, including improved access to rural finances. This strategy is being prepared and will be integrated into PARPA II.
- High rates of broad-based economic growth are fundamental for continued reduction in poverty. To maintain such high rates of growth, private sector development will be critical. In this regard, it will be important to continue to reduce the cost of doing

business in Mozambique, reduce corruption, improve the rule of law, address rigidities in the labour market, improve basic infrastructure, enhance access to credit, and modernise procurement regulations.

- Fiscal policy and its different elements should be improved. The efficiency and efficacy of expenditures need to be improved to maintain their impact on growth and poverty reduction.
- The human and economic impact of HIV/AIDS will be addressed in the PARPA II.
- Gender analysis and gender responsive interventions need to be integrated in PARPA II, highlighting the correlation of increased gender equality with increased poverty reduction and economic growth.
- Improved natural resource management (fisheries, forestry, mining, land, water) is needed to sustain growth and to contribute to budget resources mobilization. The National Strategy for Sustainable Development will be integrated into PARPA II and include environmental indicators.

17. Monitoring and Analysis:

- The Government will maintain its commitment to the integration of PES, OE and CFMP and of these with the Government's five year programme and the PARPA in the single process (*processo único*) methodology. A key PES/PAF indicator will be developed to monitor food security and nutrition in 2006.
- The revision of the PARPA will be used to develop an integrated comprehensive and gender-sensitive system with a study on the planning, budgeting and monitoring cycle to ensure that information from all levels is included in the BdPES. The monitoring system needs to engage the other stakeholders: civil society, faith based groups, private sector, and donors. The relationship between the PARPA and the MDGs, including monitoring and evaluation, will be strengthened.
- Development partners will strengthen and accelerate their efforts to align with Government planning and monitoring systems and harmonize their support.
- Establishing a system for monitoring the sustainable use of natural resources and environment is a priority. Environment mainstreaming will be implemented and monitored through the PES and PAF. Indicators will be prepared for consideration at the MYR 2005.

B. Governance

Performance 2004

18. In the area of governance (Public Sector Reform, Decentralization/Deconcentration, and Legal Sector Reform and Reform of the Judiciary), **overall progress** was slow, although the Government has met some targets. It has also been agreed that substantial advances in the ongoing reforms are indispensable for meeting the PARPA objectives and the MDGs. Without those reforms aiming at more effective delivery of public services, enhancement of the rule of law and significant improvements in accountability to citizens, the targets of poverty reduction may be hard to meet.

19. In the area of **public sector reform** the three targets agreed for 2004 have been partially met, with limited impact on service delivery. The PES/PAF target for completion and approval of Functional Analyses (FAs) was only partially met; out of the six FAs only two have been formally approved by CIRES (MADER/MINAG and MIC), and presentation of

the remaining four has been rescheduled for 2005. Preparatory work was undertaken for the Medium Term Pay Policy. The unification and verification of databases for public servants is still outstanding. Concerns relate to the need for government to strengthen leadership in the reform process, and to better identify priority areas of intervention which will have an early impact and provide quick wins.

20. Some progress was noted in **anti-corruption** work: the national study on good governance, corruption and service provision was partially completed in the last quarter of 2004, with dissemination rescheduled for June 2005. The Anti-Corruption Law was approved in 2004, but the regulations are not yet elaborated and the High Authority for the Combating of Corruption (Gabinete Central de Combate à Corrupção) has not yet been created formally. Many alleged corruption cases were reported to the Unidade Anti Corrupção (Anti-Corruption Unit) in the Attorney General's Office, but the rate of concluded investigations and convictions have been extremely low so far. The Government signed, but has not yet ratified the UN convention or the SADC protocol on corruption. An institutionally comprehensive anti-corruption strategy needs to be prepared, with strong political backing and clout.

21. In the area of **decentralization/deconcentration** there is notable progress against the PES/PAF targets. Concerning the introduction of participative district planning, the target has been exceeded. The other target, the approval of the regulation of the Law n° 8/2003 on Local Government was not met, it was approved in April 2005. A number of challenges remain. Budget allocation, execution and accountability mechanisms at sub-national levels are a concern, with stagnating percentage shares of the budget going to provinces and districts. Off-budget expenditure and revenue are not systematically accounted for. There is a further concern that the Government has focused more on consolidation of the municipalities than on their quantitative and qualitative expansion. Also, resources are not allocated where poverty indices are highest.

22. Little progress was noted in the area of the **justice sector reform programme and in the administration of justice**. The legislative reform and training programmes are being implemented. An integrity study of the judiciary was completed and there was an increase of funding to the sector. However, the long term vision document, an essential part of the reform programme, was not completed as planned and is not expected shortly. With regard to the **judiciary**, a review of the 2004 targets shows little progress. Despite an increase in the productivity of case disposition meeting the 2004 PES/PAF target, the backlog and the total volume of judicial cases continues to increase. Slow case processing in civil cases and high judicial costs constitute barriers to contract enforcement. The target regarding decreasing the number of detainees awaiting accusation and trial was not met. The ratio between investigated and sentenced cases of reported incidents in the area of corruption and economic crime continues to be low, and communication with the public on the resolution of certain high profile cases is still outstanding. The slow progress in the justice reform programme and in service delivery may undermine the confidence of citizens in the democratic institutions of the state and its capacity to combat crime, corruption and to ensure predictability. If the constraints are not overcome, they will continue to affect the appropriate functioning of the administration of justice services and the sector's capacity to contribute to poverty reduction. Henceforth, the challenges continue to be: enforcement of human rights, particularly in prisons; access to justice, including both formal and informal justice delivery; combating corruption and economic crime; contributing to the promotion of

social justice, and; a favourable business and investment climate. Stronger Government commitment is essential to accelerate progress in this area.

Recommendations for 2005 and 2006

23. Public Sector Reform

- There is a need for a Government endorsed review of the approach, and progress of the reform process, in order to inform the “implementation phase” (2006-2011). This should be done before the Mid Year Review 2005, in order to provide the basis for rethinking the PES/PAF targets so they better measure the impact of the reform.
- The Government should identify priority action areas and give due focus to these.
- The donor community should make an additional effort to streamline its coordination and simplify the management of UTRESP funds.
- The Government should accelerate the unification and auditing of civil servants' records.

24. Anti-Corruption

- The elaboration of the national anti-corruption strategy through a consultative process which involves, among others, the Government, the future *Gabinete Central de Combate à Corrupção*, civil society, and should take into account the findings of the recent survey.
- Increasing the ratio between reported cases of corruption and economic crime and concluded investigations and sentences, and improving communication with the public regarding high profile cases.
- Use the existing administrative sanctioning measures in the fight against corruption.

25. Decentralization

- Consolidation of policy elements through an operational Decentralization and Deconcentration Strategy (2005 PES/PAF indicator), arrived at through a consultative process with local governments and municipalities within the PARPA II scheme. It is important that this is based on the subsidiarity³ principle.
- Creation of a vertical planning and budgeting system which is reconciled with the logic of territorial and administrative planning, basing itself on a common legal framework. The innovative work that is being carried out in Nampula could be a model for such a system. MICOA and MPD will in 2005 define how the Territorial planning, and the Districts' Development Planning can be integrated. Guidelines, manuals and regulations will be prepared/revised. 10 pilot projects will be initiated in 2005.
- The improvement of accountability mechanisms through the strengthening and capacity building of the Institutions of Participatory Community Consultation (IPCCs).

³ Decisions taken at the lowest possible level of public administration

- Elaboration of a manual for district finances which clarifies the district's function as a budgetary unit, its incorporation into SISTAFE as well as their capacity to retain revenue.
- A survey of internal and external recurrent and investment resources (on- and off-budget) available to the provinces and covered by the decentralized planning and finance programme, in which the responsibility of each is clearly defined. This would provide the basis for increased discretionary funding for provincial, district and municipal governments and would facilitate a more transparent monitoring of global expenditure.
- Better integration into the planning process at the local level of HIV/AIDS, gender and management of natural and environmental resources is needed.

26. Justice

- The completion of the sector's vision document is being proposed, with the corresponding review of the sector's strategic documents, aiming at a better integration of the justice sector and police, particularly the Criminal Investigation Police (PIC). In this process, the Coordination Council for Legality and Justice (CCLJ) should play an important role, as well as in the articulation and coordination of the sector with its international partners.
- Justice sector delivery needs to be more focused at the poorest strata of the population and the promotion of development, by creating a favourable environment for private business and investment.
- The sector needs to consider a better integration of the reforms of the legal and the public sector, as well as the need for a functional analysis (of the justice sector), which takes into account its particularities, as well as a greater openness towards and dialogue with the civil society (Bar Association-OAM), Human Rights NGOs, IPAJ, and others) in the execution of the sector's operational plans.
- The sector needs to create better harmonized monitoring and evaluation systems, and to identify gender sensitive indicators geared towards service delivery and access to justice, as well with regard to the monitoring of PARPA.
- A gender perspective needs to be applied with regard to all legislative reform work.
- In facing the progressively increasing number of newly opened and pending judicial cases, as well as detained people, the sector should take measures that go beyond increasing the productivity of each magistrate. In order to resolve the current situation, measures to be taken should include the involvement of auxiliary legal institutions (law lecturers, internship students, CFJJ, OAM, advisors in the prisons, etc.) and the use of arbitration to accelerate dispute resolution.
- With regard to the fight against corruption, the authorities need to increase the ratio between investigated and sentenced cases and the total of reported cases.
- The inspection (internal audit) of the courts and the prosecution needs to gain impetus, notably with regard to using the results as criteria for the performance assessment of judiciary personnel.
- The reform of the Penal Code and the Penal Procedural Code, should include domestic violence in an adequate and effective manner to guarantee full legal protection against such crime.

C. Public Financial Management

Performance in 2004

27. Performance in this area is at best mixed. Based on preliminary figures, spending in priority sectors remained below target at 63.3% of total expenditure, of which 50.4% was in education and health (thereby attaining the 50% PES/PAF indicator). Critical progress on SISTAFE was made with the initiation of its rollout in the Ministry of Finance. Improvement was also made in the review of internal audit functions, and steps were taken towards the establishment of the central revenue authority. Less positively, procurement reform has been delayed - although recent developments are promising - and revenue performance is worrying. A key concern for PAPs is that dialogue on the performance of external audit remained absent. A further central concern for Government and PAPs was the failure to produce the 2004 Public Financial Management Assessment in time for the Joint Review, hampering a comprehensive PFM assessment.

28. In the area of **budget execution**, spending on priority sectors continues to be the main focus of fiscal policy. Government spent 63.3% of total expenditures, less interest payments, on PARPA priority sectors. This represents a slight decrease compared to 2003 (CGE: 63.9%). This performance is acceptable considering the costs of elections and the good performance of domestically financed spending. However, the final figures for expenditure in priority sectors will only be available when the State Accounts are published. Progress in improving the comprehensiveness of the budget is slow, with many own revenues and donor flows remaining outside the budget. Reported execution of the external grants financed investment expenditures remains low at just 52%, probably reflecting weak reporting more than weak execution.

29. The flow of funds from the MF improved compared to 2003, as demonstrated by the budget execution figures for recurrent costs (94.8% in 2003 and 98.0% in 2004) and by the internal component of the investment budget (80.1% in 2003 and 98.7% in 2004)⁴. . From the perspective of the sectors the flow of funds remains irregular and unpredictable, both for internal and external funds. The alterations in the originally approved budget allocations are not reflected in the execution reports, making the analysis more difficult. The reports from the sectors (e.g. water, education and agriculture) show that the consistency of information between sectors, the MF and partners remains unsatisfactory.

30. **SISTAFE** began roll-out in the MF on the 1st November 2004 allowing financial execution of the State budget through e-SISTAFE. According to the PES/PAF indicator it had been expected that general budget execution of the 2004 State Budget, as well as direct budget execution in the Ministries of Finance and Education through e-SISTAFE, would have been initiated in 2004. For a number of understandable reasons this was not accomplished. Consequently the 2004 PES/PAF indicator has partially been met.

31. Progress has been made in the review of the **internal audit** functions. The MF presented the diagnostic study on the situation of the internal control institutions at national level, a 2005-2009 strategic plan, and a 2005 activity plan and budget for the internal audit subsystem. A value for money audit in the road sector due to be conducted in 2004 was carried out at the beginning of 2005 and a draft report has been released. The

⁴ Figures including advances.

quality of this audit is considered satisfactory. Important findings and recommendations will be followed up by the MF and the roads sector.

32. Concerning **external audit**, neither the assessment of progress towards the 2004 PES/PAF target nor the discussion on the indicators and targets for 2005-2007 could take place. Nevertheless, it was recognised that improvement was experienced during 2004 on the external audit by the TA of the General State Accounts, in terms of the timeliness, scope, and in some respects quality of the audit reports for 2002 and 2003, which were debated in the National Assembly in April 2005. The PAPs and the Government welcome the start in early 2005 of a dialogue to follow up on the main content issues raised in the TA audit report.

33. In **Procurement**, the 2004 PES/PAF indicator to approve a new procurement regulation was not met. This was partly due to delays in scheduled consultations with the different stakeholders. On the basis of conclusions made at a workshop discussing the fourth draft regulations, a more advanced draft will now be elaborated by Government for discussion with the stakeholders, thus improving conditions for preparation of the decree. It was agreed in the 2004 Joint Review that a number of "quick wins" should be targeted in 2004. In general, progress towards achieving these was unsatisfactory.

34. Tax reform showed mixed performance. The PES/PAF target to submit the draft legislation on the creation of a revenue authority to parliament was achieved. The draft law creating the CRA was submitted to Parliament in August 2004. The revenue collection target of 14.7%⁵ of GDP was missed by about 1 percentage point. Weak performance was observed across all taxes. Government gave the following main reasons for the shortfall in revenue: on the international taxes (VAT on imports and tariffs), the reduction was mainly due to the appreciation of the Metical; on income taxes, the delay in computer processing of income declarations, delayed submission of declarations by taxpayers, as well as reduced collection of retained tax in public service. Government also reports the following improvements on the main private sector concerns on tax administration; processing time for VAT refunds was reduced from 60 to 30 days; about 82% of the refund claims were processed, compared to 67% in previous year; and, customs clearance procedures were improved.

Recommendations for 2005 and 2006:

35. Public Financial Management

- The 2004 PFM Assessment report will be ready for the MYR 2005. The 2005 report will be ready in time for the 2006 Joint Review.
- The mixed performance in the area of public financial management is influenced by the relatively weak management capacity in the different reform areas. Given the importance of these reforms for the sustainable implementation of PARPA, this needs to be addressed.

⁵ Quantitative target based on old GDP series. Under new series, reviewed in 2005 (with higher GDP figures in nominal terms), the revenue ratio to GDP is 12.3% in 2004.

- PAPs and Government will work on a joint strategy for capacity development in Public Finance Management. Further it was agreed to strengthen reform coordination and management.

36. Budget Execution

- Government and PAPs will revise the indicators for measuring budget performance (including allocation and execution) for poverty reduction prior to the MYR.
- It was agreed to improve the quality of financial programming and allocation for priority sectors for both internal and external funds, in order to secure a more regular and predictable flow of funds.
- Additional improvements in budget execution also require a stronger dialogue between the MF and sectors regarding the causes of delays in disbursements and their prevention.
- It was agreed that future execution reports will not only compare expenditures to the final budget, but also to the original allocation. Also the reports will give more information on budget and execution of externally financed funds and projects.
- An improved picture on multi-sectoral expenditure on HIV/AIDS is essential for coordination and planning, as well as for demonstrating Government commitment.
- It was agreed that the treasury quarterly cash flow plan should be sent to PAPs by December in order to improve disbursement planning and to avoid liquidity gaps. PAPs have not yet received the information for 2005.
- Review the possibility to track budget allocations to measure investments in gender equality.
- A stronger effort is needed to improve consistency of information between the MF and the sectors in order to turn the budget execution report into a more useful tool. Donors will contribute by improving the information they provide.
- Budget coverage and comprehensiveness must be increased in steps to include all own-generated revenues of budget units and donor funds and to include these funds in e-SISTAFE budget execution.

37. SISTAFE

- Adequate project management capacity, including transparent and efficient procurement arrangements, should be put in place. The IT-security audit to provide assurance about the security and integrity of data is to be undertaken as a matter of urgency.
- UTRAFE should develop a clear change management strategy in order to respond more proactively to the changes associated with the reform within MF as well as within line ministries.
- It is also recommended that UTRAFE elaborate an updated and user-friendly overview of the Public Financial Management reform and its principal elements. This would include a full roll-out plan and a realistic timetable for the e-SISTAFE roll-out to be refined based on the experience of Ministry of Education and Culture (MEC).
- It is important to start updating in the context of e-SISTAFE the current budget management practices and systems to improve transparency and efficiency and strengthen budgetary control.

- The IMF, which has been providing technical assistance to SISTAFE reform, has signalled that it will evaluate its role by the end of 2005. There is thus an urgent need to agree on the approach and scope of continuous technical assistance to SISTAFE reform.
- The following PES/PAF indicators left open for 2005 were agreed: (i) Preparation of a semi-annual budget execution report on the basis of the e-SISTAFE using new budget classifiers (due 15 August, 2005); and, (ii) Roll-out of e-SISTAFE to the MEC will be completed by December 2005.

38. Audit

- Government needs to mobilize resources to implement the 2005-2009 strategic plan on the sub-system of internal audit.
- A PAF indicator for external audit for 2005 has not yet been agreed. Government will propose an indicator before the end of May. This proposal should be assessed by PAPs before confirmation of commitments for 2006.
- The PES 2006 should have adequate coverage of the audit area and the PES/PAF 2006 needs to draw adequate indicators from this for measuring the performance of external and internal audit.
- The water sector Value for Money (VfM) audit will be completed before the 2005 MYR. Future VfM audits will be delivered in time for inclusion in the Joint Review.

39. Procurement

- The 2005 PES/PAF indicator is the approval of a decree revising procurement regulations for public works and concessions, goods and services based on international standards in 2005. It is expected that the decree be submitted to the Council of Ministers by the end of June 2005.
- Measures should be undertaken during 2005 to ensure that the implementation of a transparent and efficient procurement system is not further delayed. These measures include: a revised action plan; procurement audits in a sample of ministries in accordance with the activity plan of the internal audit subsystem for 2005; elaboration of ToRs for a consultant to elaborate standard bidding documents; elaboration of a training programme for civil servants and suppliers, as well as elaboration of ToRs for a Code of Conduct for procurement.
- The integration of procurement into e-SISTAFE is important.

40. Tax Reform

- The consolidation of VAT and income taxes introduced in 2003 is of critical importance. Measures will be taken to recover revenue and broaden the tax base, including strengthening of tax administration, intensifying inspections and audits on taxpayers and expansion in attribution of NUIT's (tax identification number).
- It is important to strengthen and improve controls for tax revenue collection linked to the exploitation of natural resources.
- The development of actions towards the creation of the central revenue authority should continue during 2005, addressing the critical issues of the integration of the customs and domestic tax administrations, change management, strengthening information management and capacity building.

- Based on GDP figures revised by INE (National Institute of Statistics) in 2005, it was agreed that the PES/PAF target of total revenue relative to GDP for 2005 is defined at 13.9%.

D. Private Sector and Financial Institutions

Performance 2004

41. Overall performance in this thematic area is mixed. The sub-area assessments are: (i) financial sector: fairly good; (ii) private sector: mixed/improving; (iii) agriculture: quantitative is satisfactory but institutional development is not satisfactory; (iv) roads: construction is satisfactory but financing is not satisfactory; and (v) energy: mixed. Whilst overall growth of the private sector has been positive, observers believe that the reform process slowed, a trend which could damage future private sector growth. Key areas for improvement in 2004 that carry over into 2005 include legal and judicial reform, banking efficiency, tradability of land-use titles, labour law reform, improved public finances management, and energy availability and efficiency for private sector growth.

42. Financial Sector Reform: Performance against the PES/PAF indicators was assessed as fairly good. Good progress was made against four targets. A strategy for International Financial Reporting Standards (IFRS) has been presented, regulations related to the Banking Institutions law (LICSF) were prepared, the withdrawal of Government participation in Banco Austral was completed, and a chart of accounts for the insurance sector was published. Progress against two targets was rated as fair. The forensic audit of Banco Austral hasn't started but the audit company contract has been signed, and the strategy for Government withdrawal of BIM has not yet been defined but is under development. For those two targets rated as poor – the submission of the bankruptcy law (LFL) to Parliament and the development of a strategy to regulate the participation of public companies in the financial sector – there has been little activity to date. The establishment of a Financial Investigations Unit by December 2004 was not achieved. However, the Government has committed to develop an action plan and timetable by the end of May 2005, in order to have the unit operational by December 2006 at the latest.

43. Progress against the PES/PAF indicators for the **business environment** is mixed, with optimism for future improvement. Of the 4 PES/PAF 2004 targets under the *Ad Hoc* Legal Reforms section: the Amendment of the Labor Law is in progress; the Commercial Code is delayed but progressing; and regulations for licensing commercial and industrial activities, and the regulations for inspections of commercial and industrial activities, are already in place. Much remains to be done at the level of the PES/PAF Strategic Objective for 2004: "Creation of favorable environment for private sector action". Since a third of 2005 has already passed, immediate attention is now required.

44. In the area of agriculture, overall progress on the PES/PAF quantitative indicators for 2004 was satisfactory, but less progress was made on the institutional reforms of MINAG. Growth in the agricultural sector in 2004 remained strong at about 9%; this was mainly achieved through expansion in land use and productivity gains in the north of the country.

Indicators for vaccinations were below the target by 50%. Some advances were recorded in the institutional reform of MINAG, namely the revision and approval of its status and functions, and in the newly created or restructured subordinated institutions; however, less than expected progress was made in drafting the plan for staff resource development and deployment. The Ministry finalized the preparation of its strategy document for PROAGRI II. Disbursement constraints continued to hamper normal implementation of the sector's activities; out of the total amount foreseen for 2004, only 62% of budgeted investment was disbursed. Specific budget execution concerns include: (i) the lack of a uniform mechanism for the flow of information on execution for projects outside of PROAGRI system; (ii) information regarding external investment budget execution at provincial level not being sent to central level by the DPPF; and, (iii) the lack of information on MINAG's procurement account.

45. The **energy sector** shows progress in the majority of the indicators set in the sector policy and strategy. Most significantly, EdM implemented the goals for connecting new consumers, the Master Plan (2005-20) for grid extension has been completed and distribution networks for low-cost technologies and intermediate energy types are being established. The first large scale gas project has been implemented and future areas for exploration and investors have been identified. New sources of funding for FUNAE (National Energy Fund) have been identified, but not approved. Significant progress has been achieved in drafting new regulations for natural gas distribution and electricity. Less positively, no study of outages has yet been carried out; the Mozambique-Malawi inter-connector has not advanced; and, the efficiency goals for EdM were not achieved.

46. The overall trend of the **road sector** is positive. The PES/PAF indicators were largely achieved: the routine maintenance target was accomplished (103%); the rehabilitation indicator was significantly overcome (184%); but the periodic maintenance indicator remains weak with funds used for maintenance reaching only about 80% of the planned amount. The Road Fund (RF) has been obliged to shift funding from periodic maintenance to rehabilitation against the RF policy due to the fact that, the fuel levy decree was approved after the 2004 budget was approved by the Parliament. Thus, the MF had to match the investment and fuel levy funds considering the limits imposed by the Law.

47. The limited capacity of *Administração Nacional de Estradas (ANE)* for the implementation of projects and supervision services, lack of maintenance funds, and the decentralization process are matters of major concern. Another area of major concern is the bureaucratic and lengthy process of contractor and consultant payments. This has resulted in significant RF debts related to late payment, interest and claims (approximately \$10 million in 2004) and has a detrimental impact on private sector development, especially smaller companies.

Recommendations for 2005 and 2006

48. Financial Sector

- The forensic audit of Banco Austral should be completed by December.
- Progress is needed in selling Government's interest in BIM and the submission of LFL legislation should be accelerated.
- The drafting of the social security law should be finalised.

- During the Mid Year Review new actions and targets will be defined focussing in particular on the PES/PAF objective of improving financial intermediation especially for micro, small and medium enterprises. Furthermore, a strong case was made for conducting an analytic inventory of existing public instruments for financing of private enterprises.
- Emphasis should be placed on commencing the actuarial study of INSS.

49. Business Environment

- Complete a broad consultation process on the labour law and formulate a plan of action.
- Approval of the new commercial code and full entrance into force.
- Business registration: adoption of reforms including the computerisation of Notary registries and registered lawyers to function as alternative notary agents.
- Fines and inspections: immediate abolition of current system for fines distribution among the inspector, the institution in charge, and the Treasury. Complete implementation of a transparent and accountable system whereby fines are deposited in a bank account of the Treasury.
- Special attention must also be paid to: payment scheduling (including VAT refunds); one-stop-shops; simplification of licensing and registration of the economic ministries; telecommunications regulations; and, HIV/AIDS.
- MICOA will prepare a yearly report on the progress in the integration of the environment into the private and service delivery sectors.

50. Agriculture

- In 2005, MINAG should achieve improved results in the areas of institutional development, including: human resources; management information systems (MIS); procurement and assets management; and comprehensiveness of the information system on budget execution.
- MINAG should ensure implementation of the Gender Strategy and the recommendations of the Strategic Environmental Assessment and the HIV/AIDS diagnostic study.
- The implementation strategy for the restructuring of MINAG (to be completed in 2007) as approved by CIRESA needs to be prepared and initiated.
- Implementation mechanisms for PROAGRI 2 should be finalized in 2005, in consultation with other stakeholders (MF, MPD, MAE, MIC, MOPH and provincial governments) to allow a gradual implementation in 2006 and 2007.
- Develop a medium term fiscal framework for agriculture consistent with international recommendations, namely NEPAD, and with the Government's Medium Term Fiscal Framework.

51. Energy

- Establish a monitoring and evaluation system in the energy sector for coherence between existing planning and monitoring instruments and enhancing fulfilment of sector indicators.

- Establish a result oriented human resource plan for the staff of the new Ministry of Energy, to ensure that the needed competence is in place to carry out its mandated role.
- Ensure that funds for FUNAE's administrative budget are available by the end of 2005 and a flow of income for the investment budget is available by the end of 2006.

52. Roads

- Donors and Government should produce an action plan to move towards a common, un-earmarked fund to the Road Sector through RF to reduce transaction costs on RF and government road institutions.
- The performance monitoring system at central and provincial levels must be improved, as must the reporting system against PARPA objectives including main institutions, provincial directorates and donors. For the 2006 PES/PAF matrix, it is proposed to add an indicator reflecting *capacity analysis*, as the percentage of planned funding versus actual financing. In addition, it is recommended that the coordination and monitoring between RF and ANE be improved.
- The recommendations from the recent MF (Inspeção-Geral de Finanças) institutional capacity assessment of the Road Sector should be actioned to increase overall management.
- The RF should be given full financial and administrative autonomy.
- A systemised mechanism for increasing participation of local road sector contractors and consultants should be developed and implemented.
- There is a need to align with the PARPA performance indicators by adding a performance indicator for the percentage of impassable roads.

E. SERVICE DELIVERY

Performance in 2004

53. Service delivery in 2004 showed **fairly good overall progress**. In education performance seems to be on track, although data on the completion rate indicator will not be available until May. Despite promising progress in girls' enrolment, regional and gender inequalities continue. In health there was positive overall progress, both in MDG indicators measured by the demographic and health survey of 2003 and in the PES/PAF indicators, although DPT coverage rates stagnated in 2004. In HIV/AIDS the targets for 2004 were satisfactorily met, but implementation of an equitable multi-sectoral HIV response remains a major challenge. In the water sector, the water coverage target was partially achieved. The Government is still facing challenges in the improvement of sanitation services.

54. There were **common concerns and issues** in the four sectors, including late disbursement of budget funds. This, combined with problems in execution capacity across the sectors, resulted in low budget execution rates. Several sectors noted discrepancies in financial data (allocation and execution) between the MF and the sectors. Also large volumes of funds remain off-budget in the priority service sectors and there is little information on their execution. The slow roll-out of SISTAFE continued to raise concerns. The impact of the HIV/AIDS epidemic is significant across the service delivery sectors, and although there has been some progress in the health and education sectors, the development and implementation of sectoral HIV strategies has been

negligible. In addition, the national HIV response has suffered from a lack of strong political leadership at all levels and across all sectors. None of the sectors has progressed much in institutionalising and mainstreaming gender. Gender inequalities are evident in primary education indicators; the health sector information systems cannot provide data to measure gender disparities; and gender inequality is one of the driving forces behind the HIV/AIDS epidemic. Investments in sexual and reproductive health are important pro-poor measures and determinants for greater gender equality.

55. Overall performance against the three **HIV/AIDS** PAF/PES indicators in 2004 was satisfactory. The target for the prevention of mother-to-child transmission (PMTCT) was 81% met. Although this target was not fully achieved, overall progress is positive as 2004 was the first year of implementation of PEN Saúde, and there were significant challenges in scaling-up access to care and treatment. The target for antiretroviral (ARV) treatment was exceeded; and the target for prevalence was met. There was significant progress in the application of the “*Three Ones*” – namely the establishment of one national strategic plan; one coordinating mechanism; and one national monitoring and evaluation system. Political leadership at all levels and across all sectors is crucial to an effective national response - yet the CNCS Board (which should spearhead this effort) did not meet in 2004, compounding the fact that political leadership has been sub-optimal. HIV/AIDS is inextricably linked to gender inequality and poverty, and must be tackled through a coordinated multi-sectoral response, yet few sectors have mainstreamed HIV/AIDS in their sector strategies and still fewer have dedicated resources for implementation. The upsurge in the number of orphans and vulnerable children has stretched coping mechanisms beyond their limits. Civil society engagement at all stages of strategy development and implementation is key to the achievement of PAF/PES, PEN II and PEN Saúde targets, but has yet to be adequately recognized. Significant delays in the development of a workable Grant Management System have detracted CNCS from focusing on its core business of coordinating, leading and monitoring the national response. Although HIV/AIDS was addressed fairly comprehensively in the PES 2005 impact analysis, it was not mainstreamed in the following sector strategies. There is a need to revisit the HIV/AIDS PAF/PES indicators for 2006.

56. In the **education** sector, the net enrollment indicator from the PES/PAF matrix was achieved, but data on the completion rate indicator will not be available until May. Significant regional and gender disparities continue to exist. Significant progress was registered in Primary Education. The Government abolished the payment of compulsory fees that were being made in primary schools. The implementation of the New Curriculum for Basic Education and literacy and non-formal education, as well as the HIV/AIDS Strategy constituted areas of progress. Important changes were seen at the post-secondary education level. The revision of the Secondary School curriculum is in process with a view to transforming the curriculum in order to address concerns with improvement in quality and relevance of this sub-sector, as well as the changes in Primary Education. A reform of Technical-Professional Education is also in progress with the participation of the private sector and both national and international partners.

57. Nevertheless, MEC still faces serious challenges. The ESSP II has not been finalized as foreseen in the PES/PAF, as a result of some weaknesses in the planning capacity at MEC. The difficulties observed in the area of financial management led to low budget execution, hindered the disbursements of FASE funds and caused delays in salary payments for teachers and subsidies for literacy trainers, thereby compromising

MEC's programmes. Teacher training, including in-service training, and distribution of text books still do not respond to needs in the sector. Similarly, the area of gender registered weak progress and continues to be a concern. HIV/AIDS continues to be a great challenge.

58. The **Health** sector performed positively in 2004, as in addition to the 2.1% increase in the global volume of activities, two out of three targets set in the PES/PAF were achieved. Only the coverage of DPTHeB (3rd dose) remained unchanged compared to 2003 which can be attributed to problems related to the management of the vaccination programme (PAV), particularly in logistics (vaccine supply and the regular operation of the cold chain in the health units) and the poor performance of the outreach teams. Expansion of basic and essential obstetric services and interventions within the network also contributed to the overall positive performance, as evidenced by the improvement of the MDG indicators, namely the reduction of the infant and under-five mortality rates from 147 to 124 and from 219 to 178 per 1,000 live births respectively, according to 5-year averages calculated from the Demographic and Health Surveys of 1997 and 2003.

59. Provision of **HIV/AIDS** prevention and treatment services experienced growth with the entry into operation of 113 voluntary counseling and testing sites and 25 Day-Hospitals. Access to ARV Treatment remains limited. The gender perspective is still being institutionalized in the sector. The share of total budget allocated to the health sector has shown a reduction, from 14% in 2002 to 11% in 2004, although its execution has shown some improvements. As for the sector SWAp, the Ministry of Health (MoH) manages three common funds, in collaboration with the MF. Sector reform is still in the diagnostic analysis phase. There are still delays in the disbursement of funds, as well as in the absorption and deployment of human resources in the periphery.

60. In **water and sanitation**, the PES/PAF indicator for access to safe water is for 41% coverage and the sector achieved 39.8% in 2004, implying an overall satisfactory performance. Sanitation coverage figures for rural and urban areas are based on various surveys but these do not allow for the monitoring of the indicator on a yearly basis. The government is still facing challenges in the improvement of sanitation services. First steps in improving the monitoring system (for which DNA is responsible) were made, with some provinces and cities having updated sector databases. Budget execution figures are still not finalized as the budget execution report does not coincide with either DNA or DPOPH financial figures and final figures will be available in the 'Conta Geral do Estado'. Internal investment spending at central level has improved to 55.5% (approximately \$7 million out of \$12 million), but still low as a result of Treasury difficulties. Execution of the sector's external component of the investment budget, however, is alarmingly low at 22.8% due to slow disbursement of the funds. 70% of the provinces (Tete, Sofala, Maputo, Gaza, Nampula, Inhambane and Niassa) have reported investment execution rates of at least 70% and some report on-time disbursements from the MF, while others report execution rates below 60% due to later disbursement from the MF. Progress on the debt load reduction has been made and one third of the total amount has been reduced. Progress has been registered in international river management, in the elaboration of National Water Resources Strategy and in revision of the National Water Policy and Water Act.

Recommendations for 2005 and 2006

61. Common recommendations across service delivery thematic area

- The need to improve relations between the MF and sectors in order to make it possible to have correct, timely data available and decrease discrepancies of financial data.
- Budget execution of investment funds needs improvement across sectors, especially for the external component.
- Serious and systematic work is needed to identify "off-budget" amounts available to sectors at different levels of implementation.
- The implementation of a coordinated national response for HIV/AIDS taking into account the gender dimension of the epidemic and its impact in all sectors needs the strong involvement of all sectors.
- Serious effort is needed to mainstream gender into sector activities.
- The numerous partners of the service delivery sectors need to further coordinate, harmonise and simplify actions and support in order to reduce transaction costs for government counterparts.

62. HIV/AIDS

- Build on political leadership at all levels (national, provincial, district and community) and across all sectors. Although some progress has been made, the national response is still not commensurate with the scale of the epidemic. It is critical that this gap is closed and that a coordinated, costed, financed, multi-sectoral response across the entire public sector is mounted based on PEN II and PARPA II. In addition, the CNCS Board must fulfill its mandate and meet on a quarterly basis.
- CNCS must concentrate on its 'core business'. CNCS must focus its attention on coordinating, leading, monitoring and analyzing the national response. In order to do so, it must develop a credible plan and time-line for establishing an effective, simplified grant management system. It must also continue to build its own capacity, as well as that of the public sector and of civil society interlocutors.
- Civil society must be involved. Civil society must be given the space to engage at all stages of determining and implementing policies and strategies in order to achieve the PEN II and PEN Saude targets.
- Gender dimensions must be addressed. It is critical that appropriate, targeted, multi-faceted programming be developed and resourced to address the inextricable link between gender inequality and HIV/AIDS. All sector strategies must mainstream HIV/AIDS and address gender inequalities.
- Analysis of HIV/AIDS expenditure. As: (i) a significant amount of funding is "embedded" in sectors; (ii) many civil society organizations are funded directly, and; (iii) many public sector initiatives are off-budget, a public expenditure review should be undertaken to map and assess how and where HIV/AIDS funding is being channeled, and to what effect. It will also be important to understand how "earmarked" HIV/AIDS resources are impacting the resource envelope and altering government spending patterns.
- Review of Indicators. In the context of the implementation plan for PEN II, the current HIV/AIDS indicators will be revisited at the time of the Mid-Year review, taking into account revised targets and confirmation (or otherwise) of readily available, reliable data.

63. Education

- Finalization of the ESSP II and elaboration of the implementation plan including the financial plan and the implementation manual.

- Creation of conditions for the effective implementation of **SISTAFE**.
- Reinforcement of internal financing within the Education Sector.
- Implementation of the policies for Teacher Training, Technical and Professional Education and School Construction.
- Implementation of actions to accelerate progress in the area of gender, including: concerted efforts to increase the number of female teachers and ensure girls' protection in school; prioritizing those districts with the greatest disparities or gender gap; and; improvement in the performance of cooperating partners with regard to their commitments and ways of working.

64. Health

- Within the on going health information system reform, PES/PAF indicators and targets should be revised taking into account (i) the institutionalization of data collection systems disaggregated by sex, (ii) the need to include indicators to track implementation of government policies (e.g. malaria program, ARV treatment) that lead to improved outcomes, and (iii) possible changes of EPI indicators coverage rate.
- Improve the absorption levels of health professionals trained within and outside the MoH's training institutions, emphasizing their deployment in the areas most in need.
- Maintain/increase OE funding for health as a priority sector.
- Register more external funds on-budget, continue the process of harmonising the management of off-budget pooled funds with OE.
- Continued and strengthened investments in sexual and reproductive health are necessary for the achievement of poverty reduction goals and improved gender equality.

65. Water

- The monitoring system must be strengthened and improved to have reliable data on the PES/PAF indicators (coverage). A consultancy underway for sector MDGs planning could be used to help implement an improved, unified, and transparent system which should be managed from within DNA. This consultancy, or a separate one, might be used to prepare the formats and implement the procedures for collecting and analyzing the information to be used in the joint and MYRs.
- The areas of Planning and Finance in DNA and the provinces must be strengthened. This will require support from the cooperating partners. Improved relations between the MF and DNA should make it possible to have correct, timely data available.
- Budget execution of investment funds must improve, especially for the external component. An intensive effort to identify the key constraints to increasing expenditures (linked to improved sustainability of works) should be undertaken. Serious and systematic work is needed to have a better idea of the "on-budget" and "off-budget" amounts available to the sector.
- Agreements (MoU) with those partners working off budget should be facilitated in order to receive regular information. Donor harmonization needs to advance in the water sector. More regular follow-up meetings of the core group of donors must take place during 2005, at least every 3 months, to follow the Joint Review recommendations. In order to improve this mechanism DNA, with support of donors, has contracted a consultant to elaborate a National Strategy for achieving the MDGs. The scope of this consultancy will be widened to cover both the

monitoring of the off-budget funding and the establishment of a database for a performance monitoring process.

IV. MOU IMPLEMENTATION AND AID EFFECTIVENESS

Performance in 2004

66. Annex 2 shows in detail how PAPs have performed against the PAP Performance Assessment matrix. The PAPs, in consultation with Government, commissioned three consultants to undertake an independent review of PAPs' performance in 2004⁶ against the commitments and indicators set out in the PAP Performance Assessment matrix and compared with the 2003 baseline study⁷. The main findings of the report are summarised below.

67. Overall, substantial efforts were made in increasing aid effectiveness in 2004 although there is still considerable room for improvement. Performance against core MoU commitments was better than performance against broader aid effectiveness commitments. The improvements are particularly accentuated in the areas of alignment and harmonisation, although PAPs are urged to improve in-year predictability⁸ of disbursements. Weaknesses are most pronounced in the area of transparency. About one third of PAPs are not meeting the requirements on quarterly reporting on aid flows to DCI. Furthermore, efforts to improve predictability and relieve the administrative burden of the Government did not gain momentum with delegated cooperation remaining a rarity and project modalities continuing to dominate. Government pointed to the co-existence of GBS with other modalities of aid and the high initial costs of establishing operational GBS systems as reasons for high transaction costs. Aid fragmentation continues. Large numbers of donors remain engaged in many sectors with limited concentration and labour partitioning efforts (e.g. 26 donors continue to be active in the education sector).

68. Consultations with Government and civil society showed clear and strong support for increasing the share of aid to be delivered as general budget support in accordance with the current MoU principles. The reasons given related to the strengthening of accountability, predictability, intra-governmental co-ordination, Government planning and budgeting, policy development, aid co-ordination, and potentially lower transaction costs. Concerns were expressed, however, regarding the risk of greater donor coordination leading to a worsening of the already unequal bargaining power between Government and donors. Line ministries in particular indicated the risk that higher shares of general budget support could exacerbate Government management weaknesses with limited options for negotiating with donors at sector level as an alternative. Hence, a gradual move to increased budget support was advocated in line with strengthened government systems (e.g. SISTAFE). The PES/PAF indicators were said to reflect both

⁶ 'Perfect Partners? – The Performance of Programme Aid Partners in Mozambique, 2004' – May 2005 – A report to the G16 Programme Aid Partners and Government of Mozambique by T. Killick, C. N. Castel-Branco, and R. Gerster. Will be made available on the PAP website: <http://www.scm.uem.mz/pap>

⁷ Baseline Study on PAP Performance in 2003 – Sept. 2004 – Report to the G15 Programme Aid Partners and Government of Mozambique by R. Gerster and A. Harding.

⁸ The report found that predictability has improved. Government, however, considers that this remains an area of weak performance.

government and donor priorities, albeit in an uneven negotiation playing field. Further PES/PAF streamlining and simplification was advocated.

69. Issues around MoU Implementation

- There is the possibility that new or existing members could introduce new ‘annex 10’ exceptions or add to the existing exceptions, thereby negatively impacting on the overall MoU signatories’ commitment to reduce the number of exceptions in the spirit of increased harmonisation, alignment and predictability.
- The heterogeneity of the G16 is a potential problem that could undermine the effectiveness of the group in moving the harmonisation and aid effectiveness agenda forward.
- MoU reporting was satisfactory regarding the financial audit of 2004 programme aid flows. The report of the audit group in annex 3 discusses the other audit reports required by the MoU. A significant delay in finalising the 2000-2002 MB10 financial audit, however, led to great concerns among the PAPs. The MoU does not specify a response mechanism for dealing with reporting problems.
- At the 2004 MYR it emerged that there is a lack of clarity around what is meant by budget 'headlines information'.
- Multiple visits by PAP national audit institutions led to significant transaction costs, which could probably have been reduced by better co-ordination and information sharing.

Recommendations for 2005 and 2006

70. PAP Performance Assessment Framework

- Government and donors will agree on an updated Programme Aid Partners Performance Assessment (PAPPA) matrix that sets out PAP commitments in the area of aid effectiveness by the MYR. Targets rather than monitoring indicators will be identified and further progress will be made in extending the outreach of the matrix to the overall G16 portfolio. As per government request, disaggregated individual donor commitments will also be identified.
- Following the Government’s suggestion that PAPPA exercises should result in a performance rating for each PAP, a criteria and weighting framework to assess individual PAP performance will be developed by the MYR at the latest.

71. Aid Effectiveness

- The Government has indicated its intention to include a statement on aid policy in the elaboration of the PARPA II. A first draft will be prepared by September.
- An initiative to align the sector planning and reviewing cycles with the Government cycle is already underway and will continue.
- Given that a significant and increasing share of non-GBS aid takes the form of capacity strengthening programmes, a priority will be to commission an issues paper around a joint strategy for capacity strengthening, as agreed during the MYR. The main objective will be to identify ways in which the framework for allocating and managing such programmes can be made more strategic and government-led, and to introduce guidelines for capacity strengthening

programmes to reflect best practice. Specific terms of reference will be agreed by June, with an aim to discuss the finalised paper by October at the latest.

- The criticism of the PAPP report on sector-level aid warrants further discussion among PAPs and with Government.
- The PAPs should increase efforts to disburse on committed dates. When there are reasons for not disbursing on given dates, PAPs should inform the Government to enable the mitigation of negative impacts.

72. Reporting On External Aid

- Most external support to the MF and MEC will be included into SISTAFE by the end of 2005 as a first step to more comprehensive budget information and management. Revised planning and reporting standards for external support shall be developed in order to facilitate this process.
- PAPs commit to improve programme aid and overall aid reporting.

73. Reducing Transaction Costs

- The Ministries of Finance and Development and Planning have already indicated a preference for a quiet period running from June to August, which is a crucial period for the budget preparation process. Further discussion is needed on what this will mean in practice and whether further measures could be taken. Sector working groups are also encouraged to agree quiet periods with line ministries.
- The G16 will seek to make further progress in limiting the number of missions, reducing aid fragmentation, and agreeing a better division of labour.
- PAPs will recommend to their respective audit institutions to co-ordinate visits and share information to the extent possible.

74. Programme Aid MoU Implementation

- Government and donors have agreed (i) to consider any proposed MoU change in terms of its impact on existing commitments for increased harmonisation, alignment and predictability, (ii) that principles should apply indiscriminately to existing signatories and new entrants, (iii) that a critical criterion for membership should be a commitment not to expand the type and number of exceptions.
- The MYR budget 'headlines information' will consist of the macroeconomic and fiscal framework, including expenditure information for the priority sectors. Further discussion is needed on the implications for the existing 31st August deadline for this information.
- Government and PAPs will discuss and agree on a response mechanism for dealing with MoU reporting problems.
- The consistency of all PAP programme aid bilateral agreements with the MOU will be verified.

Anex 1: Performance Assessment Framework – Short Matrix (“Short PAF”)

Government Program – PARPA			Priorities		Indicators	Assessment performance 2004				
Strategic Objectives	Areas	Sub-areas	Objectives	Actions		Targets 2004	Joint review 2005			
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%	75,6%	Targets met		
					EP1 net enrolment rate – girl	69%	73,2 %			
						EP1 completion rate – total	43%		n/a	
						EP1 completion rate – girls	36%			
	Health	Mother & Child	Maternal mortality reduced	Increase offer of obstetric care		Proportion of institutional deliveries among expected births	47%	46.9 %	Target met	
			Infant mortality reduced	Increase coverage of the Extended Vaccination Programme	Coverage R DPT3 and HepB 0-11 months	95%	91.5	Not met		
	HIV-AIDS	CNCS	Infection and mortality rates reduced	Expand access to quality treatment for communicable and non-communicable diseases	Start implementation of PNCS II	Utilization rate - consultations per inhabitant per year	0.91	0.96	Target met	
						Reduction of vertical transmission	HIV-AIDS prevalence rate in adults	14.9%	14.9 %	Target met
							# HIV+ pregnant women and neonates receiving PMTCT Prophylaxis	8,000	6511	Not met but reasonable progress observed
Infra-structure	Roads	National network improved	Rehabilitate and improve the national network; Improve the procurement system and execution of works and services		Kms. Rehabilitated	813	184%	Met Not met met		
					Kms Periodic Maintenance	1,392	84%			
	Kms Routine Maintenance	13,578	103%							
	Water	Access increased	Open well and make new connections	% Population with access to potable water	41%	39.8%	Partially met			
	Sanitation	Access increased	Improved latrines, septic tanks	% Pop with access to sanitation services	35%	45%	Met, based on data from IAF survey 2002-2003			
Promotion of economic development, with priority to the rural	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%	Proxy table			
					Facilitate access to funding	Micro-credit clients	80,000	n/a		

areas and reduction of the regional unbalances				Stimulate market mechanisms	% of crop production actually marketed for a selected number of relevant crops	54.5%	15,4 %	Referred to % of agriculture farms that market production
	Manag. of Natural Resources	Access to land		Simplify mechanisms of obtaining the rights for land tenure	N° of processes authorized in 90 days	2,500	2117	
		Promotion of sustainable exploration		Promote sustainable usage of irrigation techniques	% of small and medium farms that use irrigation techniques	11.5%	Proxy table	
				Stimulate sustainable commercial management of natural resources	% concessions approved with application plans	22%	50,5%	Met

Government Program – PARPA			Priorities		Indicator	Assessment performance 2004		
Strategic Objectives	Areas	Sub-areas	Objectives	Actions		Targets 2004	Joint review 2005	
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		Partially met
					Strategic plan 2004/08 approved, implemented, and evaluated	Approved		Not met, but progress observed
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			fair –revision ongoing
				Submit to parliament revised Commercial Code	√			fair; delayed but progressing
				Approve the regulations on the licensing of commercial and industrial activities	√			Good

			Approve the inspection regulations for commercial and industrial activities	√		Good
Macro-economic and financial policies	Financial system	Strengthen supervision capacity of Banco de Moçambique Improve financial intermediation including for micro, small, medium enterprises and unbanked households:	Conduct forensic audit of BAu commissioned through PGR	Audit initiated.		Not met but minimal progress
			Implement IAS on the financial sector (incl. tax harmonisation)	IAS strategy presented		Met Partially met Reasonable progress made
			Strengthen institutional capacity of BdM and other regulatory authorities	LFL submitted to Parliament; LICEF regulations prepared		Partially met
			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.		Met
			Reform insurance sector	Chart of Accounts prepared		
	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%	63.3%, of wich 50.4% in education and health	65% not met, 50% on health and education met
			Implement budgeting through programs, starting in 5 sectors, among which education and health	Develop methodology and choose sectors	Against indicator as agreed at MYR: start off-budget study in health	Met
			Implement the Sistafe	DPPFs + MPF, MINED pilot	DPPF + MPF partially met; MINED not met	Partially met and critical progress observed
	Tax Reform	Simpler and more covering, fair and balanced taxation	Create the Revenue Authority by 2006	Submit draft law to parliament		Met
			Budget revenue collection (% of GDP)	14.7	13.6%	Not met
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	√		Not met but some progress in 2005	
Audit	Improve coverage and function on internal and external audit	Review functions of internal and external audit institutions	Review		Internal audit met, but delayed External audit : not met	

Government Program – PARPA			Priorities		Assessment performance 2004			
Strategic Objectives	Areas	Sub-areas	Objectives	Actions	Targets 2004	Joint review 2005		
	Planning and Monitoring		Harmonization of medium and long term instruments	Insure integration among PES, PARPA and CFMP	√		Partially met	
				Adapt the “Balanco do PES” to be the primary instrument for PARPA Monitoring	√		Partially met	
				Deconcentration/Decentralization	37		Met (130%)	
	Good Governance, Legality and Justice (Fight corruption)	Public Sector Reform		Deconcentration Introduce District Planning - number of districts	Approve regulation of the Law of Local State Organs and implement	Approve regul. and implem.		Not met
					Decentralization Prepare policy and strategy for decentralization		n/a	
					Restructuring plans agreed and implementation started in the areas of Health, Education, Agriculture, MAE (Min. Of State Admin.), MIC and MPF		Functional analysis: 2 out of 6 presented by CIRES P	Partially met
					Rationalization and professionalization of structures and processes			Not met: Preparatory work done
			Government approves Medium Term Pay Policy and implementation started					

Government Program – PARPA			Priorities			Assessment of performance 2004			
Strategic Objectives	Areas	Sub-areas	Objectives	Actions		Targets 2004	Joint review 2005		
			Combat corruption	Anti-corruption law		Passed		Met	
				Undertake a study on Good Governance, corruption and provision of services, and develop and implement anti-corruption strategy		Study undertaken	Study not published	Partially met	
				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	√	n/a		
					Follow-up study		n/a		
				Action Plan approved and implementation started			n/a		
				Increased Government resources (particularly upgraded staffing) allocated to Anti Corruption Units		√	n/a		
		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)	20%		Met
					Reduction in number of prisoners awaiting accusation and trials	Maximum % of prison population awaiting trial	65%		Not met
				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	√		Not met
					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			Partially met

Annex 2: The PAFs' PAF matrix – a mirror of 2004 performance

1. Indicators on core MoU donor commitments

Areas of Concern	Objectives	Activities	Indicators	2003 actual	2004 target	2004 actual	2005 target	2006 target
Predictability	Short-term predictability of BS/BOPs improves	1. Donors agree with MPF on disbursement schedules for year n+1 by 31 December of year n	1. Share of donors disbursing according to agreed schedule of disbursements and commitments (subject to no breach of underlying principles)	40%	>60%	80%	>80%	100%
			2. Same as (1) but in terms of the % of total BS/BOPs		>60%	89%	>80%	100%
		<ul style="list-style-type: none"> Donors inform GoM of commitments within four weeks of the annual review and do not change the size of commitments afterwards Donors confirm commitments for year n+1 by 31 August (exceptions exist in MoU Annex 10) 	3. Number of instances of agencies NOT meeting these commitments as stated in the MoU (taking account of MoU exceptions)	n.a.	0	1	0	0
	Medium-term predictability of BS/BOPs improves	<ul style="list-style-type: none"> Donors commit funds on a multi-year basis 	4. Share of donors with a multi-year indicative commitment	60%	>70%	81%	>80%	>90%
Alignment & Harmonisation	Full alignment and harmonisation of BS/BOPs in the spirit of the 2004 MoU	2. Reduction of bilateral conditions, bilateral administrative and reporting requirements, and bilateral legal and statutory requirements	5. Share of donors strictly adhering to the common conditionality framework (PES PAF matrix)	87%	87%	87%	>90%	>95%
			6. Share of donors with bilateral exceptions in the MoU (Annex 10)	n.a.	53%	50%	<55%	<55%

Areas of Concern	Objectives	Activities	Indicators	2003 actual	2004 target	2004 actual	2005 target	2006 target
		3. Harmonise response mechanisms	7. Number of donors NOT using the core MoU response mechanisms (disbursement in year n+1 based on performance in year n-1)	n.a.	3	3	3	2
Administrative burden	The administrative burden on GoM related to the number of visits on BS/BOPs and overlapping activities is reduced.	<ul style="list-style-type: none"> The number of missions related to BS/BOPs is reduced Donors increasingly use joint missions 	8. Number of missions related to BS/BOPs is reduced	?	2 (JR & MYR only)	? ⁹	2	2
Transparency	PAPs fulfil their information requirements according to obligations (MoU Annex 3, §3)	<ul style="list-style-type: none"> Provision of quarterly report on release of Programme Aid within 2 weeks of the end of each quarter 	9. Number of instances of donors NOT meeting these commitments	n.a.	0	3	0	0
Capacity building	Capacities to design, implement, monitor and evaluate GoM PARPA are strengthened	<ul style="list-style-type: none"> Explore the possibility for a long term joint strategy for Technical Assistance 	10. An issues paper exploring the possibility for a long term joint strategy for Technical Assistance is drafted in 2005 and discussed with GoM	n.a.	/	/	yes	/

	On track or better than targeted
	No data, not applicable
	underperformance

⁹ Could not be assessed due to lack of data. Question 5.1 of the questionnaire covers all missions, not only those for BS/BOPs.

2. Monitorable indicators

Areas of concern	Objectives	Activities	Indicators	2003 actual	2004 target	2004 actual	2005 target	2006 target
Predictability	Short-term predictability of BS/BOPs improves	<ul style="list-style-type: none"> Based on performance in year n-1 donors commit funds for year n+1 at the start of the GoM budget preparation cycle 	11. % Total BS/BOPs committed for year n+1 within four weeks of the year n Joint Review and for which disbursement in year n+1 is guaranteed unless there is a breach of underlying principles ¹⁰	n.a.	55% (estimate)	62%	tbm	tbm
	Medium-term predictability of BS/BOPs improves	<ul style="list-style-type: none"> Donors commit BS/BOPs in line with GoM planning horizon 	12. Number of donors providing indicative multiyear commitments of BS/BOPs on a rolling basis in line with the MTFP	0	tbm	0	tbm	tbm
Portfolio composition	Donors make use of the most effective aid modalities	<ul style="list-style-type: none"> PAPs and GoM evaluate the effectiveness of BS/BOPs as a modality in terms of the objectives stated in section 1 and 2 of the MoU Where appropriate donors increase volume of BS/BOPs and turn other aid modalities into BS/BOPs 	13. Share of BS/BOPs in PAPs' total aid (excl. aid to NGOs and private sector)	35% ¹¹	tbm	32% ¹²	tbm	tbm
Administrative burden	Donors contribute to reduction of GoM burden	<ul style="list-style-type: none"> Donors manage funds for other donors or conclude agreements to perform tasks for other agencies 	14. Number of examples of delegated cooperation among donors	4	tbm	3	tbm	tbm
		<ul style="list-style-type: none"> Donors co-ordinate sector work 	15. Number of sectors with 10 or more PAPs is decreasing	3	tbm	3	tbm	tbm
		<ul style="list-style-type: none"> Donors pool project funding 	16. Pooled funding/stand alone projects ¹³	1.2 ¹⁴	tbm	0.3 ¹⁵	tbm	tbm

¹⁰ Taken to be total BS/BOPs minus the variable tranches and WB BOPs

¹¹ The percentage does not exclude aid to NGOs and the private sector as part of total aid because of a lack of data. Belgium, Germany and Portugal are excluded as they did not yet disburse budget support in 2003. Denmark is excluded from the calculation because the required information was not provided.

¹² The percentage does not exclude aid to NGOs and the private sector due to lack of data. Canada and Denmark are not included as they did not disburse budget support in 2004.

¹³ Ratio in financial terms.

¹⁴ To avoid definition problems, 'pooled funding' includes 'sector budget support' and 'basket funding'. 'Stand alone projects' refers to 'Project aid' in the baseline study. Due to data problems (particularly clarity around what is meant with 'Other') the ratio is calculated based on information from 6 donors only.

Areas of concern	Objectives	Activities	Indicators	2003 actual	2004 target	2004 actual	2005 target	2006 target
		<ul style="list-style-type: none"> Sector aid is made more harmonised, aligned, and predictable 	17. Number of sectors with an MoU containing comparable donor commitments as the PAP's MoU	0	tbm	0	tbm	tbm
			18. Number of sectors with a donor performance matrix	0	tbm	0	tbm	tbm
		<ul style="list-style-type: none"> Donors respect GoM core business 	19. Donors agree 'quiet periods' with GoM	/	tbm	no ¹⁶	tbm	tbm
Transparency	Donors' BS/BOPs related analytic work on Mozambique is shared with GoM	<ul style="list-style-type: none"> GoM participates in study Analytic work is done in Portuguese or translated into Portuguese 	20. Share of studies timely available in Portuguese	69%	tbm	87%	tbm	tbm
	Transparency on aid flows is improved	<ul style="list-style-type: none"> Donors & GoM negotiate & agree on aid reporting standards PAPs report aid flows to DCI 	21. Share of PAPs reporting aid flows to DCI based on an agreed format and definitions	60%	tbm	56%	tbm	tbm

tbm = to be monitored

na = not applicable

BS/BOPs = Budget support and Balance of Payments Support

	On track or better than 2003
	Not applicable, no change
	Underperformance related to 2003

¹⁵ For definitions, see note 15. Canada and Denmark are not included as they were not disbursing budget support in 2004. The ratio is calculated based on information from 11 donors; for Germany, Norway and Switzerland data were missing.

¹⁶ A dialogue on "quiet periods" took place in 2005 only.

**Anex 3: Working Group Reports
(will be added)**

Annex 3: Report from the working groups

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1. WG: Growth and Macroeconomic Stability

Summary

During 2004 macroeconomic growth and stability showed further positive developments, broadly meeting the targets established with the IMF in May 2004. Real GDP growth is estimated to have been 7.2% for the period, driven by developments in the private mega-projects as well as continued growth in other sectors including agriculture. End-of-period inflation was below the 11.0% target at 9.1%; money supply growth was also within the programme at 5.9%. The external sector recorded notable improvements with a 24% reduction in the trade deficit due to an increase in exports from mega-projects, as well as an associated rise (30%) in net international reserves to 4.8 months of import cover (of non-factor goods and services, including mega-projects). Commercial non-performing loans fell from 27% to 6% of gross loans, indicating a reduction in risks to macroeconomic stability from the banking sector. Linked with these improvements in economic fundamentals, the exchange rate appreciated sharply against the US dollar (by 21% in nominal terms) and less so against the Rand (4%). Fiscal performance was below expectation across most major categories of taxes with government revenues reaching only 12.3% of GDP against the IMF target of 13.4% and the government's budget target of 12.9% (based on new GDP figures – see note). As a result, the government's primary deficit target (budget: -3.0%; IMF: -3.1%) was overshoot, reaching -3.8% of GDP.

With respect to 2005, real GDP is estimated to grow by 7.7% while end-period inflation is expected to remain in single digits at 8.0%. However, the need for continued macroeconomic stability alongside sustainable, broad-based growth points toward a number of central challenges for the government during 2005 and beyond. In particular, the government's commitment to strengthen domestic resource mobilization and control the primary deficit must be maintained. It also is evident that attention should be given to ensure sustained, inclusive growth in the 'traditional' sectors (outside of the mega-projects), to create the conditions for the emergence of new, labor-intensive, export oriented industries and services, and to develop a coordinated natural resources development strategy. Finally, given recent exchange rate volatility, careful management of monetary policy and international reserves should be maintained.

Introduction

This note reviews the government's ("GoM's") performance in 2004 with respect to macroeconomic growth and stability. Important sub-sectors are treated separately followed by a summary of the main lessons learnt from 2004 and resulting priorities for 2005. GoM's macroeconomic and fiscal performance is assessed against the end-year targets agreed with the IMF in May 2004 as well as the fiscal targets inscribed in the GoM's 2004 budget law.

Real Sector

- *GDP restatement:* a recent development is INE's (Instituto Nacional de Estadística) publication of final GDP figures up to 2002 and a new estimate for 2003, replacing previous DNPO estimates. While the new GDP figures do not question the high growth rates estimated previously, both the growth rate and the GDP deflator for each year from 2000 have been restated. The result is higher nominal GDP figures, thus modifying calculation of GDP ratios.

- The table below provides a comparative summary of the restatement. In this note, GDP ratios are stated based on the new numbers; however to facilitate comparison the same ratio is stated in parentheses based on previous figures¹.

	1999	2000	2001	2002	2003	2004	2005
Restated figures ^a :							
Nominal GDP	51,913	58,355	76,545	96,883	113,811	137,425	159,912
GDP Deflator	2.9%	10.3%	16.0%	17.0%	9.0%	12.6%	8.0%
Real growth		1.9%	13.1%	8.2%	7.8%	7.2%	7.7%
Previous figures ^b :							
Nominal GDP	51,913	56,917	71,135	85,206	102,753	124,093	144,588
GDP Deflator	2.9%	8.0%	10.6%	11.5%	11.5%	12.6%	8.2%
Real growth		1.5%	13.0%	7.4%	8.1%	7.2%	7.7%

Notes: GDP figures are stated in billions of Meticaís; (a). source: INE 1999-2003 of which 2003 is preliminary; DNPO estimates 2004-2005; (b). source: INE 1999; DNPO estimates 2000-2005

- *GDP growth*: estimates indicate real GDP growth remained strong at 7.2% during 2004, against 7.8% in 2003. This slight slowdown relates to a reduction in construction activity due to completion of a number of private sector mega-projects and a decline in fishing production due to climatic fluctuations. However, growth was supported by the coming on-line of Mozal II and the SASOL gas pipeline, as well as buoyant growth in other sectors including agriculture (showed 7.1% real growth).

Fiscal Performance

- *Revenue collection*: GoM revenues from taxes and other sources (excluding privatisation and the US\$122.8 million signature bonus from the Brazilian mining/minerals firm CVRD) were below expectation at 12.3% (13.6%) of GDP against the 2004 budget target of 12.9% (14.3%) and the IMF programme of 13.4% (14.6%). This shortfall was mainly due to higher-than-programmed reimbursements of value added tax (VAT), delays incurred in complying with the payments calendar under the new corporate income tax code, and weaker customs collections linked to appreciation of the Metical.
- *Expenditure*: the shortfall in revenue was partly compensated by reductions in current expenditure which reached 13.8% (15.3%) of GDP against the budget target of 14.0% (15.5%) and IMF target of 14.3% (15.6%). Whilst the target of 6.7% (7.5%) of GDP for salary expenditures was attained, total expenditures on priority (PARPA) sectors fell short of the 65% target at 63.3% of total expenditure (before interest payments and financial operations). More specifically, (re)current expenditures in PARPA sectors were above the 53.9% target at 55.7% of total current expenditure (before debt service) while investment expenditures reached only 73.8% of the 78.8% target of total investment expenditure, the latter due to lower-than-planned levels of investment supported by external financing.
- *Fiscal deficit*: mainly given the shortfall in revenue collection, GoM's primary deficit² was -3.8% (-4.2%) of GDP, exceeding the budget target of -3.0% (-3.4%) and the IMF target of -3.1% (-3.3%) of GDP by 0.7 (0.9) percentage points. The budget deficit³ however was lower than projected, reaching -12.2% (-13.5%) of GDP against the budget target of -12.7% (-14.1%), mainly due to below-target levels of investment expenditure
- *Government internal financing*: despite overshooting of the primary deficit target, and due to net external financing, credit to the government was lower than programmed achieving

¹ Under the IMF programme of May 2004 the predicted value for 2004 GDP was 125,275 billion Meticaís. Thus, the *original* fiscal target GDP ratios of the IMF programme (in this note stated in parentheses after those calculated using recent GDP data) are based on this GDP estimate, rather than the 124,093 estimate given in the table above

² Defined as: [government receipts (before privatization)] - [current expenditure (before debt service) + internally funded investment expenditure + internal financing of net lending operations]

³ Defined as: [government receipts (before external financing and domestic credit)] - [total expenditure]

a net surplus (increase in government deposits) of 0.5% (0.6%) of GDP as opposed to 0.3% (0.3%) targeted under the IMF programme and 0.2% (0.3%) under the budget law.

Monetary and Financial Sector Developments

- *Inflation*: despite sharp increases in international petroleum prices, end-period inflation declined from 13.8 % in 2003 to 9.1% in 2004 against a target of 11.0%.
- *Exchange Rates*: the Metical appreciated strongly against the US Dollar through 2004, rising 21% in nominal terms by the year end. Against the Rand the Metical also strengthened, nominally gaining 4% by the end of the period. Taking into account international depreciation of the US Dollar, such strengthening of the Metical is consistent with improvements in the economy's fundamentals, namely export growth from the mega-projects as well as strong capital inflows from donors.
- *Money Supply*: broad money expanded by 5.9%, substantially less rapidly than programmed, in part reflecting the revaluation of foreign currency deposits due to appreciation of the Metical; removing this exchange rate effect, broad money expanded by 15%.
- *Non-performing loans*: strengthening of the commercial banking sector continued with a sharp reduction in the ratio of non-performing loans to gross loans from 27% to 6% in the 12 months to end 2004.
- *Private sector credit*: in nominal terms credit to the private sector fell by 5.6% in 2004. However, removing the impact of exchange rate movements on the value of foreign currency denominated loans, credit to the sector grew by 8.8%; also removing the impact of adjustments made for non-performing credits, credit to the sector grew by 14.6%
- *Lending rates*: consonant with general improvement in economic fundamentals, interest rates have been able to fall. The Central Bank reference rate fell by 400 basis points during 2004 and commercial nominal lending rates fell to 24%, narrowing the interest spread to 14%.

External Sector

- *Trade balance*: with completion of MOZAL II in 2003 and inauguration of the SASOL pipeline in 2004, the period recorded a sharp increase in exports leading to a sizeable reduction in the trade deficit. Total exports grew by 44% to US\$1.504 billion, the vast majority (80%) of this increase referring to these mega-projects. Imports grew at a slower rate, including an absolute reduction in imports by mega-projects, reducing the trade deficit by 24% to US\$531 million.
- *Capital inflows*: remained heavily directed towards the government whilst direct foreign investment fell from US\$342m to \$241m, reflecting the completion of construction of two private sector mega-projects. Balance of Payments estimates suggest grants to the GoM remained approximately stable at US\$491m while credit disbursed to the GoM increased by 35% to US\$315m.
- *International Reserves*: reflecting the improvement in the trade account and continued capital inflows, net international reserves grew by 30% to US\$960m, representing 4.8 months of import cover (of non-factor goods and services, including mega-projects).

Key lessons and perspectives for the future

- *Assessment of 2004*: the 12 months to end 2004 were marked by continued macroeconomic stability and strengthening of the country's macroeconomic fundamentals. In particular, reductions in the trade deficit and inflation, combined with a fourth consecutive year of real GDP growth above 7% are notable achievements. Weaknesses in domestic revenue mobilization are of some concern; however GoM is committed to reversing revenue shortfalls in 2005. The period also saw strengthening in the banking sector, thus indicating a reduction in risks to macroeconomic stability.

2. *Perspectives for the future:* notwithstanding the positive developments witnessed in 2004, a number of areas should be highlighted for GoM's consideration during 2005. These include:
- ⇒ Fiscal progress: in light of weaker performance in 2004, the government's energetic commitment to domestic resource mobilization must be maintained;
 - ⇒ Domestic debt: it is of note that the cost of GoM's domestic debt (0.7% of GDP, 2004) remains twice that of its external obligations. With the projected rise of internal debt in 2005 (and beyond), it is important that such debt is tightly controlled and does not have an adverse effect on priority expenditures;
 - ⇒ Real sector growth: it is evident that high economic growth and macroeconomic improvements of recent years have been underpinned by sustained agricultural growth and upgrading/rebuilding of the economy's basic infrastructure, bolstered by the contribution of mega-projects. The question now to be addressed is how to sustain these positive fundamentals and achieve continued broad-based, inclusive growth particularly in 'traditional' sectors as well as in value-added from labour-intensive industries and services;
 - ⇒ External dependence: positive macroeconomic progress could not have been possible without substantial capital inflows from donors and multi/bilateral creditors. The continued dependence of the economy on such inflows underlines the importance to macroeconomic stability of predictable and timely aid disbursements;
 - ⇒ Foreign exchange: in the context of improvements in the economy's fundamentals, the sharp appreciation of the Metical in 2004 and its volatility in 2005 remain of concern. Thus, careful management of monetary policy and international reserve targets must be maintained; and
 - ⇒ Natural resources development: in the context of developing sustainable bases for growth as well as strengthening domestic revenue generation, there is a valuable opportunity to develop a coherent and coordinated strategy for the sustainable development and management of Mozambique's natural resources, such as minerals, fisheries, forestry, land, etc.

2. WG: Poverty Analysis and Monitoring Systems (PAMS)

Executive Summary

Overall progress in 2004 was satisfactory. There was some progress against the key PAF indicators of ensuring integration of the PES, PARPA and CFMP (MTEF) and strengthening the Balanço do PES for PARPA monitoring. Significant progress was made in quantitative poverty analysis and dissemination with good quality work carried out. More attention now needs to be given to qualitative analysis in order to deepen our understanding of the drivers of poverty. Steps to improve the monitoring system were also noted. A number of key challenges remain, however. First, the overall framework for poverty monitoring needs to be strengthened. Second, poverty analysis shows that some key groups, including female-headed households, orphans and vulnerable children, and areas of very high chronic malnutrition, have not benefited fully from the gains in poverty reduction. These groups must be prioritized during the process of developing the PARPA II if poverty gains are to be sustained. Third, despite more widespread dissemination of poverty data and analysis, the extent to which they are used for planning and decision making remains low. Fourth, the separation between planning and finance raises concerns and could jeopardize the single process methodology.

Four clear recommendations have emerged from the Review: (a) the government will maintain its commitment to the integration of the PES, OE, and CFMP, through the single process methodology (“processo unico”). A key PES/PAF indicator will be developed to monitor food security and nutrition in 2006. (b) the PARPA Review process will be used to develop an integrated comprehensive monitoring system, which includes a study on the planning, budgeting, reporting and monitoring cycle to ensure that information from all levels is included in the Balanço do PES; and the prioritization of the MD Goals in the Mozambican context. (c) development partners will strengthen and accelerate their efforts to align with GOM planning and monitoring systems and harmonize support, and finally; (d) government, development partners and civil society need to work together to promote the use of the available information for policy development, planning and decision making.

Assessment of Performance in 2004

Progress on the 2 PAF indicators on planning and monitoring:

a) Ensuring Integration of the PES, PARPA e CFMP (MTEF)

Government commitment to integrate the three main planning tools PES, OE and CFMP was partially met through the adoption of the single process (“processo unico”) methodology and implementation started during the formulation of PES and OE 2005. The integration process needs to be consolidated, including through training, and attention should be given to the development of the corresponding monitoring tool to complete it.

The separation between planning and finance raises a concern. Should this separation affect the current process it is recommended that systematic harmonization efforts be made in order to ensure continuity and consolidation of the single process methodology.

b) Developing the Balanço do PES as the Primary Instrument for PARPA Monitoring

The BdP continued to be consolidated as the key PARPA monitoring tool. Both the Balanço do PES 2004 and PES 2005 include the matrix of key indicators (PES/PAF matrix). However, the use of the key indicators table (PES/PAF) as a monitoring tool is inconsistent – it is used in some sectors, (eg. education and health indicators have been integrated in the PES and reported against in BdP) while it is yet to be taken into account in the Justice

sector. These indicators are virtually unknown in provinces and districts, and it is vital that this be corrected. Information on progress towards the MDGs is scattered throughout the Balanço do PES and is less than consistent. Attention is needed to the quality and accuracy of the data quoted in the Balanço de PES, indicating the need for harmonizing the indicators and ensuring consistency between MDGs and the principal indicators (PES/PAF) eg. The nutritional indicators in the Balanço do PES, are not consistent with MDG1 re: hunger. Consideration needs to be given to prioritising a nutrition indicator at the MYR if the MDG of a 50% decrease in under nourishment is to be taken seriously.⁴

Poverty Analysis and Monitoring 2004:

Steps have been taken to improve the M&E system itself and coordination at all levels, however it was noted that the overall framework for poverty monitoring needs overhauling. MPD have begun to plan for sectoral specialist staff, and consideration also needs to be given to developing specialist capacity in relation to the cross-cutting issues. An analysis of provincial M&E systems has also been concluded. However, the current planning cycle does not allow for monitoring information to be fed into the Balanço do PES in a timely fashion, which effectively weakens the whole system. Dominance of the sectoral perspective continues, and much more attention to provincial PARPA monitoring systems and link with national level is needed . The PARPA review process offers an opportunity for an overhaul of the current monitoring system on the basis of the experience gained during PARPA I.

Excellent progress has been made in analyzing the Household Survey results of 2002/2003. More than ten new documents were produced during the year by the MPD, which provide information on key aspects of poverty, including a comparison between the 1996/97 and 2002/03 data. Examples are poverty determinants and profiles, inequality and differences between female and male headed households. These reports are good quality work that tackle different aspects of poverty and contribute to a better understanding. INE also finalized the DHS 2003 report, with data disaggregated by wealth index quintile, providing a strong basis for future analysis. In the area of HIV/AIDS, the MOPH is finalizing a study on the impact of HIV/AIDS in the Water sector.

Considerable progress was reported in the dissemination of poverty information to all stakeholders at central and provincial level. Data and information produced by the Government and other sources has been widely disseminated on a systematic basis to all stakeholders through websites and events such as the Poverty Observatory (PO), the launching of the IAF report, the PARPA II methodology and others. The establishment of the first provincial PO in 2004 was also a considerable achievement in participatory poverty monitoring. The Poverty Observatory as an ongoing mechanism for participatory policy dialogue is becoming ever stronger.

The coordination between producers and users of information continued to improve, for example, INE continues to maintain and improve ESDEM in co-ordination with line Ministries, and this system is now operating in all provinces. However, there is still a need for more complementary qualitative data and more attention to multi-sectoral analysis. Also the use of the information for planning and decision making continues to be limited.

Development partners are increasingly aligning with the Government M&E systems through mechanisms such as the Joint Review process with the G16 and the INE Steering Committee. Discussions have started between partners and GoM towards the harmonization

⁴ (See table in annexe for the summary of progress on the MDGs from the Balanço do PES).

of support to the GOM M&E system and the establishment of the PAMS⁵ group is contributing to this process. However, more effort is needed on the part of the donors.

According to the poverty analysis, all groups in society, including the poorest, benefited from economic growth but there was a slight, statistically insignificant, increase in inequality⁶. In addition inequality in real consumption between provinces and regions has diminished. However the gains recorded hide the complexity and diversity of the way in which poverty affects different groups in society, and gender geographical and other disparities persist. For example, female headed households are poorer than male headed households, there is evidence of increased discrimination towards orphaned children in accessing education services,⁷ and that among poorest households only 36% of women know 2 or more ways to avoid HIV compared to 63% among men.⁸ This means that we now have indications of the groups that need special attention in the next PARPA if poverty reduction is to be sustained.

There has been little improvement in the nutritional status of children between 1997 and 2003. The levels of chronic malnutrition (stunting) are very high, with 41% recorded in 2003 among children 6 to 59 months old. Stunting prevalence among children from the poorest households was recorded at 49.3% (first quintile) compared to 20% among children from better-off household, providing solid evidence for increasing focus to FSN issues in PARPA II. In food-insecure areas, the national Vulnerability Assessment Committee continued to monitor the situation and the Ministry of Health has revised the national Nutrition Strategy. However, this needs to be finalised and approved in order to be fully articulated and taken into account in PARPA II (FSN was not properly articulated in PARPA I).

Other Issues:

The recently approved Government 5 year Programme already sets out the framework for a poverty reduction strategy, with which PARPA II should be consistent.

It has been agreed that the PAF indicator of 65% of the total state budget execution going to the PARPA priority sectors, with at least one half of this to health and education is less than adequate. A proposal for a better indicator (s) should be ready for consideration at the MYR in September 2005

The GOM proposal for the PARPA review shows a marked improvement on PARPA I, and should ensure a consultative process involving Civil Society organisations in addition to Government and development partner contributions. Gender, HIV/AIDS and the environment are already given attention in the Government 5 year Programme, and are now being incorporated in the PARPA process as cross-cutting issues, with MPD taking the lead and support from development partners. In addition the PARPA review process will be based on the existing mechanisms of the Poverty Observatory and the Joint Review (PARPA monitoring process) which should lead to efficiency and effectiveness.

⁵ Poverty Analysis and Monitoring Systems Group

⁶ Gini coefficient from 0.40- 0.42

⁷ - Poverty analysis conducted by the MPD indicated that between 1996/1997 and 2002/2003 the access to education worsened for orphaned children even though the income situation of the households improved. This was confirmed by the DHS 2003, which indicated that

⁸ - attendance rate in primary school among maternal orphans was 62% compared to 78% among non-orphaned children. Among better off households, knowledge about HIV prevention is almost similar between women and men (78% versus 81%).

Key Recommendations:

1. Maintain government commitment to integration of the three main planning tools PES, OE and CFMP through continuation of the single process (“processo unico”).
2. To develop an integrated comprehensive monitoring system in the context of the PARPA review. This would include a study on the planning, budgeting, reporting and monitoring cycle to ensure that information from all levels is included in the Balanço do PES; the clarifying and prioritising of the MD Goals in the Mozambican context; and the development of key indicators (PES/PAF) for food security and nutrition, gender equality, and a review of the PARPA 65% budget execution rate indicator.
3. The PARPA review should address issues of vulnerability and disparity and have a strong focus on Food Security and Nutrition issues.
4. Development partners will strengthen and accelerate their efforts to align with GOM planning and monitoring systems and harmonize support.
5. Government, development partners and civil society need to work together to promote the use of the available information for policy development, planning and decision making.

3. WG: Tax Reform Working Group Report

Summary

Mixed performance, with progress in legislation and institutional development for the creation of the central revenue authority and negative performance on revenue collection.

PAF matrix indicators for 2004:

- Create the Revenue Authority by 2006, for which specific target for 2004 is to submit the draft law to Parliament
- Budget revenue collection as percentage of GDP, with target of 14.7%.

Performance in 2004

1. Creation of Central Revenue Authority

The draft law for creating the CRA was submitted to Parliament in August 2004. This draft was re-verified under the basis of the new constitution (approved end 2004) and resubmitted to Parliament in March/05.

In general, reform implementation for the creation of the Revenue Authority (CRA) is progressing satisfactorily. Important steps for restructuring the Tax Directorate (DNIA) into a General directorate (DGI, more autonomous and in line with future CRA) and on training officials in the administration were taken during 2004. However, further steps are needed in the functioning and strengthening DGI and in approving the codes for its functioning. The main challenge remains the integration with customs, regarding the development of common services, in particular on information technology and communication.

2. Revenue collection

Domestic revenue collection in 2004 was 13.6% of GDP. The PAF target of 14.7% was therefore not met. The shortfall occurred despite about 6% increase in tax revenues in real terms.

However, the GDP figures have just been revised by INE (Instituto Nacional de Estadística) and on the basis of the new series (higher in nominal terms) the ratio of revenue collection to GDP is 12.4% for 2004 compared to 12.9% for 2003.

Weaker than projected performance in collection was observed across all taxes. On the international taxes (VAT on imports and tariffs), the reduction was mainly due to the appreciation in the exchange rate. With regards to income taxes, the delay in computer processing of income declarations, delayed submission of income declarations, as well as the reduced collection of retained tax (at source) in public service were among the main reasons mentioned for the shortfall.

However, efforts to recover were made by the authorities towards the end of the year by focusing on the bigger taxpayers and through manual processing of income declarations. Fiscal benefits granted in 2004 for new projects had a significant impact on both corporate tax and customs. This raises the need to analyse the extent to which growth may be led by sectors/investments with little impact in generating revenue for the state.

3. Other non-PAF Issues

Regarding the main concerns of the private sector on tax and customs administration some improvements were noticed during 2004. Processing times for VAT refunds were reduced from 60 to 30 days. About 82% of the refund claims were processed, compared to only 67% in the previous year.

In addition, new customs clearance centres were created in 2004 and the import pre-inspections for customs clearances were significantly reduced. Preparation for the fiscal tribunals were carried forward and they are ready to be operational in 2005. Finally, considerable efforts were made by DGI to train all its tax officers and about 1'400 economic agents.

Main challenges and recommendations for 2005-06

In view of the creation of Central Revenue Authority, further efforts are needed during 2005 in finalizing the strategic action plan for its implementation, addressing critical issues of customs and tax integration, change management, strengthening information management, and capacity building.

Main challenges for 2005-06 include to broaden the tax base and further improve the administration's efficiency. In particular the consolidation of VAT and of the income taxes introduced in 2003 are of critical importance. The commitment of the Government to increase revenue mobilisation is so far encouraging but needs to be strengthened.

The measures planned by the Ministry of Finance to strengthen revenue collection include consolidation of NUIIT attribution, an increase in inspections and audit in the tourism and service industry, to join the interfaces of the IT systems of customs and VAT for information sharing, monthly monitoring of big taxpayers and mega-projects, the introduction of the IT system in the provinces' capitals, to fight corruption, to better train the employees of the fiscal administration and to improve the information available to the public through a special unit.

Increasing revenues should also include improved coverage in reporting on own revenues and on revenues from exploration of natural resources, in particular mineral, gas and fisheries, as well as strengthening and improving control on those revenues. The process of preparation of PARPA II could benefit from a study on revenue mobilisation potential, fiscal benefits and analysis of tax policy, including its impact in the economy.

Based on new GDP figures, revised in 2005, it was agreed that the PES/PAF target for 2005 - percentage of total revenue relative to GDP – is defined at 13.9%.

4. WG: Budget execution – BAG (excl. Tax)

PAF-performance: acceptable

Executive summary

PAF-indicators: Spending in priority sectors at least 65% of total expenditure (excluding interest payments), of which at least fifty percent in education and health.

These indicators were not entirely met. Spending in priority sectors thus far reached 63.3%, of which 50.4% in education and health. The 63.3%, which represents a slight decrease compared to 2003 (63.9% in the Conta Geral do Estado), is based on preliminary figures to be finalized in the CGE 2004. The percentage given on 2003 in the Aide Memoire of the previous Joint Review was 64.9%, based on total expenditure minus interest payments and minus costs of the elections. Based on that methodology the percentage for 2004, based on preliminary figures, would be 64.4% (the costs of the elections in 2004 were 503 billion meticals).

The following observations can be made on budget execution in 2004, reflecting the key challenges for improving execution and its monitoring:

- There is still a lack of comprehensiveness of the budget, concerning both donor grants and receitas próprias.
- Execution of the external component of investments financed by grants remains weak, with reported execution of 52%.
- Consistency of information and consolidation of records between different sources and stakeholders are improving, but are still inadequate.
- The flow of funds to sectors and provinces during the year improved in 2004 compared to previous years.
- Further improvements in the flow of funds require a stronger dialogue between MoF and the sectors, because from the perspective of the sectors the flow of funds remains uneven and unpredictable.
- The changes in the budget are not reflected in the execution reports, which hampers the analysis of the execution.
- The 65% indicator is not sufficient for assessing the way government is prioritising its expenditure.

PAF-indicator: Develop a methodology and choose sectors in order to implement budget programming, starting in five sectors, among which Education and Health.

The indicator was met, though the sequence of actions was changed at the Mid Year Review. It was felt that before proceeding to programme budgeting a clear view of total flow of funds in sectors would be needed, as well as stronger incorporation of off-budgets in planning and reporting. A study on health was initiated in 2004 and concluded end of March 2005.

Main findings of the study are that the level of off-budgets is considerable and that two thirds of the external funds in the investment budget is used for paying recurrent costs (despesas de funcionamento). The recommendations of the study will be used in the budget preparation 2006.

Assessment of performance in 2004

With 1.7% below target (preliminary figures), the performance against the PAF-indicator on priority spending can be considered as acceptable, taking into consideration the election costs and the satisfactory execution of the internal component of the investment budget. Health and Education ended above the minimum requirement of fifty percent of spending in priority sectors. Apart from the level of expenditure, the following points need improvement:

Lack of comprehensiveness of the budget, concerning both donor grants and receitas próprias.

- An unknown number of projects is not captured in the budget book. In Health, these off-budgets represent 29% of total expenditure in the sector. The BER captures only a small amount of these funds as shown in annex 3 to the report.
- Another item which has traditionally been completely off-budget are the receitas próprias. In 2004, the BER shows these off-budgets for Health, Public Works and Interior in an annex to the report.

The execution of the external component of investments financed by grants remains weak, with reported execution of 52%.

- The low execution rate of only 52% for the external investment component financed with grants, most likely reflects reporting problems rather than low execution. This figure is about the same as in 2003. This indicates that efforts for capturing spending that is not mandated by DNCP have not made much progress in 2004.
- The problems start in the planning phase of the budget when projects are included which are unlikely to lead to disbursements or which values are exaggerated. The BER contains a list of all registered disbursements in the investment budget by project. However, this list does not show the original budget allocation figures, nor does the BER include the list of projects (or their aggregate value) that had no (registered) execution at all. Comparison of execution for the listed projects with the original budget for these projects shows huge differences in execution, some far above the budget, others far below.
- The information which donors provided to DCI in 2004 apparently was not helpful for making a more comprehensive budget execution report. First, because the DCI exercise did not fit into the budget cycle. Second, given the different names and numbers used by donors and sectors, the information can be used only for plausibility checks on aggregates.

Consistency of information and consolidation of records between different sources and stakeholders are improving, but are still inadequate

- The Review is based on budget execution in the Balanço do PES and the BER, but figures are not suitable for a final assessment, because they are still very incomplete and preliminary. Mapa 22 of the BER was adjusted as fifty million dollar of execution in priority sectors was only reported in April, raising priority spending from 62.9% to 64.1%. Later this was changed again to 63.3% on basis of the revised Mapa Fiscal after the IMF mission.
- BdP and BER use different methods for calculating total expenditure, which makes it difficult to compare the two documents. Apart from the registered expenditure by DNCP ("liquidada" and Operações de Tesouraria), the BdP includes an estimate for the donor expenditure for all priority expenditure. This estimate is distributed among all sectors according to the budget allocation. This leads to different numbers for all expenditures in the two documents.

- Though there is more cooperation between sectors and MPF on issues of financial management, it remains difficult for sectors to recognise the figures presented in the BdP and the BER. Even after thorough analysis at sector-level (Water, Education, Health, Agriculture) many figures are not clear. This applies to the recurrent budget as well as to the internal component of the investment budget.

The flow of funds during the year improved in 2004 compared to previous years, but remain uneven and unpredictable from the perspective of sectors and provinces, both on internal and on external funds.

- The flow of funds from MPF to sectors and provinces in 2004 was better than in previous years. 'Despesa liquidada' in recurrent costs was 95.4% of the original budget (with 55.5% for the priority sectors). The execution of the internal component of the investment budget was 81.8% of original budget (only 'despesa liquidada'; adding the non-classified advances the execution rate goes up to 98.7%). Spending of the internal component in priority sectors was 61.4% against 62.5% in the original budget.
- To guarantee the flow of funds, the Treasury had to take much more internal credit than had been budgeted (final balance of 3.950 billion meticaais against 250 billion foreseen). The net remaining internal credit at the end of the year finance was just over 2.000 billion meticaais (100 million USD). The problem here is not the level of the internal debt (the Mapa Fiscal shows a negative value for domestic financing in 2004), but the costs of interest payments.
- However, from the perspective of sectors and provinces the flow of funds remains problematic, especially during the first half of the year. In the first six months the ministry of Health for instance only received eighteen percent of its duodecimas - the situation only improved from the third quarter onwards. There is a need to strengthen the dialogue between MoF and the sectors to agree on further steps to improve the flow of funds.
- DNT committed to send a Treasury Plan to the donors providing budget support to be able to disburse in time and to avoid Treasury gaps.

The changes in the budget are not reflected in the execution reports, which hampers the analysis of the execution.

- The BER does not compare expenditures against the original budget. Rather, it presents final allocations which include redistributions made while the expenditures were booked, effectively adjusting budgets to expenditure. The final reallocation is not even known to the sectors.
- As a comparison with the original budget demonstrates, the reallocations can be considerable, even though the total for the priority sectors does not change. This implies that execution rates for priority sectors compared to the approved original budget can be very uneven. The analysis of budget execution therefore should be done by sector and not just at the aggregated level. In Education for instance the reallocations were substantial, with final allocations for goods & services amounting to only half of the original allocation.

The 65% indicator is not sufficient for assessing the way government is prioritising its expenditure.

- The main indicator on the government finance is the 65% spent on priority sectors. This indicator is broad, but limits expenditure in non-priority areas and is therefore useful. However, the indicator includes all spending by projects administered directly by donors, which is not or hardly under control of the

government and on which reliable information is lacking. For the budget execution of funds under government control the information is much more reliable.

- The present indicator does not give any indication about the executed expenditures compared to the allocations approved by Parliament in the original budget, as there is no relation between the agreed % (65) and the budget. In 2004, the programmed execution of the priority sectors was only 63.6%, in spite of the PAF indicator of 65%, because of the costs that had to be made in 2004 for a number of big events.
- Expenditures against the three main sector funds (Health, Education and ProAgri) had not been liquidated by the end of the year; here again, it is not clear whether all these funds were actually spent in 2004. More rapid verification and recording is called for.

Other relevant issues on budget execution raised during the Joint Review and the Mid Year Review.

On most of these, little progress has been seen in 2004, but the situation looks more promising for 2005:

- The use of new classifiers (functional and source of funds) will start with the budget 2005 and will be used in the QBER, starting with the report on the second quarter.
- The format of the QBER will follow the format and classification in the new budget, which will add to transparency of the document (starting second quarter).
- Starting with the budget 2005 a short MTEF is used as first chapter of the OE, linking 2005 to previsions for 2006 and 2007. This is a step forward, though the MTEF still remains weak in costing the activities.
- Starting also with the budget 2005 districts are treated as budget units with their own allocations and a start is made with integrating 'receitas próprias' in the budget.
- The budgeting of the Operações Financeiras remains difficult. The Acordos de Retrocessão were not covered by the original 2004 budget, while expenditure amounting to 860 billion MZM took place. More information will be shared on this issue between donors and GoM.
- The OE 2005, with considerable increases in income and spending, has not been discussed with the PAPs. Due to late approval of the budget, 2005 will be a difficult year in terms of executing the budget. This will be included in the agenda for the next Budget Working Group in June.

Key recommendations (with focus on PAF 2005/2006)

On a more comprehensive budget:

- A task force on off-budgets should agree on definitions and indicate steps that need to be taken to get expenditures in Education 'on-SISTAFE' before the end of the year.
- This should include looking at the question if there is still a need for an off-budget study in Education (now PAF-indicator for 2006).
- Tackling off-budgets is a shared responsibility for donors and GoM and should be reflected in both matrices (PAF and PAPsPAF) with clear indicators.

On programme budgeting:

- The PAF-indicator 2006 for introducing programme budgeting mentions just Health. With Education on-SISTAFE even before Health, Education could start programme budgeting also in 2006.

On budget execution:

- The discussion on new, improved indicators for spending priorities (including spending in provinces/districts) should start soon, in order to reach a conclusion at the Mid Year Review.
- Increased efforts are required to reduce or clarify discrepancies between central (DNCP) and sector-level records and between donor information and Ministry of Finance. SISTAFE can facilitate this process, but improvements would not be automatic.
- Strengthen the dialogue between MoF and the sectors to agree on further steps to improve the flow of funds.
- The BER should include the original budget allocation and reflect the reallocations made during the year.

5. WG: Audit

Summary

Performance of audit institutions against the PAF indicators in 2004 was mixed.

Progress has been made in the review of the **internal audit** functions. This review started in the context of the new SISTAFE legislation creating the subsystem of internal audit, and giving to IGF a specific supervision and coordinating role in this area. The Ministry of Finance (MoF) presented the following relevant documents: a diagnostic study on the situation of the internal audit institutions at national level, a Strategic Plan 2005-2009 for the internal audit subsystem, an Activity Plan 2005 and the related cost estimate.

Although the delivery of these documents has been delayed due to the initial unsatisfactory results of the field work, they provide a relevant explanation of the functional organisation and of the weaknesses of the internal audit subsystem and a presentation of its short and medium term strategic objectives and activities. Nevertheless, financial support to cover the proposed activities to be implemented as from 2005 is not foreseen in the State budget. In addition to the support coming from UTRAFE, there is the possibility that one IGF's international partner would provide financial resources to support the subsystem of internal audit during the current year. However, IGF is looking also for eventual additional support from other partners.

Concerning **external audit**, the 2004 PAF indicator was not met. The PAF indicators and targets for 2005-07 have not yet been agreed on. This is a very worrying issue from the PAPs' point of view.

The government reported to the donors about its agreement on the relevance of this aspect of public finance management and hence its intention to establish a constructive dialogue with the Administrative Court (TA) at high level. The government informed that a government technical team, represented by the Ministry of Justice, has been established in order to propose a 2005 PAF indicator before end of May. The PAPs urge the government to pursue this plan in order to allow for a regular monitoring of this importance aspect of public finance management.

Finally, it is recommended that **from 2006 the State Budget allocates adequate resources to audit activities and that the PES has appropriate coverage of the audit area**; the PAF 2006 should draw adequate indicators from it for performance of external and internal audit.

Regarding **MoU audit requirements**, namely the Audit of the Financial Records of the Programme Aid, the Value for Money Audit and the Audit of the General State Account, although the delivery of most documents has been delayed, their scope and quality appear broadly satisfactory.

The final versions of the financial audit of the flow of budget support funds into the Treasury Account for both the period covering 2000-2002 and the year 2004 have been made available only on the 29th April 2005. Concerning the 2004 financial audit, KPMG reports confirmed that all PAPs funds were properly transferred from the Forex account to the transitory account, up to the central Treasury Account.

As for the MB10 complementary audit, the work done by the external audit company, KPMG, assures that programme's funds were actually transferred from the Forex Account in Frankfurt to the MB10 account as well as the work done by IGF and endorsed by KPMG confirms that the transfers from MB10 to the Central Treasury Account took place appropriately.

The VfM Audit carried out on the Road Sector, due for 2004, has been released in draft version only in March 2005. However, the scope and quality of the work appear satisfactory. The implementation of the recommendations for this sector should be followed up. It has been agreed that after the completion of the VfM audit for the water sector before the 2005 MYR, the VfM audits will get into a cycle which delivers the reports in time for the JR each year.

Finally, the timeliness of the reports and the audit opinions by the Administrative Court on the General State Account has been improved. Their scope and, in some respects, quality are assessed to be reasonably satisfactory.

Introduction

In this report, we will focus on:

2004 PAF Indicators:

Area	Objective	Indicator	Target 2004	Assessment of performance in 2004
Auditing	Improve coverage and function on internal and external audit	Review functions of internal and external audit institutions	Review	Internal audit met, but delayed Ext. audit not met

MoU auditing requirements: Value for Money Audits, Audit of the General State Account and Audit of the Financial Records of the Programme Aid.

PAF Indicators

Internal Audit:

1. Regarding the review of the internal audit functions, the Ministry of Finance elaborated during 2004 a diagnostic study on the situation of the internal audit institutions at national level. On the basis of its main findings, the MoF elaborated three relevant documents: the 2005-2009 strategic plan, the 2005 activity plan and the cost estimate of the internal audit subsystem. These documents have been made available to the PAPs in March 2005.
2. Although their delivery has been delayed due to the initial unsatisfactory results of the field work, the documents provide a good explanation of the functional organisation of the internal audit subsystem as well as of its short and medium term strategic objectives and activities.
However, it should be underlined that they do not refer to the IGF *per se*, but to the new functions given to IGF within the context of the June 2004 SISTAFE Decree, by which IGF has a role of supervising the internal audit sub-system.
3. The **diagnostic study on the Internal Audit Subsystem (SCI)** gives a quite comprehensive presentation of the major problems faced by the internal audit institutions, while the strategic and activity plan suggest appropriate solutions for the medium and short term.

Main weaknesses of the existing internal audit institutions can be summarised as follows:

- Limited capacities to comply with the SISTAFE reform implications;
 - Specialized members of the (Body of Internal Audit, *Orgão de Controlo Interno*) OCI staff often move to the private sector where better incentives and work conditions are provided;
 - Low educational level and insufficient training courses among large parts of staff in the OCIs;
 - Inexistent codes of conduct for public auditors/inspectors as well as practical manuals to conduct the audit/inspection functions in a correct and harmonised way at different levels and sectors;
 - Although most Ministries have already created their own internal audit unit, their functioning is not yet satisfactory. The OCIs usually do not work in a coordinated and efficient way. Within the ministries, the OCIs should be reinforced and put in a privileged position in order to make effectively their work;
 - Inappropriate financial support to the OCIs.
4. The **strategic plan of the Internal Audit Subsystem for 2005-2009** is the result of the field work made during the diagnostic study. It defines the main activities that the SCI should conduct in coordination with the other SISTAFE subsystems. For each activity is indicated the respective deadline of implementation. As a result the following strategic actions should be undertaken by the SCI:
- Ensure the institutionalization of the OCIs in each sector by enabling them with adequate resources and a “privileged” role in the Ministry. The SCI should be responsible for the monitoring and supervision of the OCIs establishment process;
 - Promote the professional development and competences of the SCI components;
 - Plan and implement auditing/inspection activities in coordination with other institutions of internal audit, the Administrative Court and the SISTAFE subcomponents.
 - Create audit committees and regulate their functioning taking into account that, through them, the subsystem of internal audit will be able to contribute to the good management and circulation of professional, updated and timely information for managers from different levels, and will, in particular, ensure the effective implementation of the recommendations of the audit reports. The discussion with the Administrative Court should start soon on this area.

The strategic plan establishes performance indicators and critical factors for each strategic objective. It has been proposed that the SCI strategic plan will be presented to all line Ministries in a workshop and its distribution will be extended to all provinces. The Government will choose the appropriate level to endorse this plan.

5. The **activity plan and the cost estimate for 2005** are operational tools of the strategic plan of the SCI. The main short term activities of the SCI include:
- Following the recommendations by the Coordinating Committee of the Internal audit Subsystem (CCSCI), each OCI should elaborate its own activity plan and submit it to the CCSCI;
 - Create an audit committee for four pilot OCIs (Ministry of Health, Education, Agriculture and Public Works) at central level. This is a pilot exercise made before extending audit committees to all OCIs;
 - Identify priority OCIs needing qualified staff and start the recruitment process on the basis of the available financial resources. New people should be trained in 2005, therefore adequate funds should be taken into account in the 2006 budget;
 - Improve the information flows within the internal audit subsystem.

6. Issues of the subsystem of internal audit to follow up:

- The main concern for the implementation of such strategic and activity plans regards the limited number of qualified personnel and the shortage of financial resources. In addition to the support from UTRAFE in 2005 (110.000 USD), there is the possibility that one IGF partner will provide financial resources to the subsystem of internal audit during the current year. However, IGF is looking also for additional support from other partners at short term, that should be complemented with adequate coverage from the State budget;
- There is a need to engage more the sectors in the SCI reform process; different ways to achieve this objective should be considered by IGF in coordination with UTRAFE;
- No reference to specific actions for the implementation of the strategic plan for the internal audit subsystem has been made, neither in the PES 2005 nor in the BPES 2004. It is recommended that this area will be taken into account at appropriate level in the future planning and reporting documents.

7. IGF

IGF being the focal institution of the SCI, its performance is also part of the SCI context, although not directly linked to the 2004 PAF indicator. Main issues in 2004 were:

- According to the last budget execution report, IGF budget execution in 2004 was quite low. Main reasons expressed by IGF for this were:
 - 2004 has been the first year in which IGF had its own budget. Funds to IGF have been made available late, so that the salaries of the first quarter of the year have been actually paid through the funds provided by the department of human resources of the MoF. In 2005 this problem should be resolved.
 - 35 new people should have been contracted by IGF in 2004. However, the new IGF staff plan has not yet been approved; hence only part of the allocated budget has been used.
 - the partial implementation of the activities foreseen for 2004 reduced the expenditures, in particular as to fuel.
- In 2004, IGF foresaw to implement 141 inspections. However, 45 have not been implemented/started and 30 were in progress by the end of the year. In 2004, 8 not planned activities have been started, of which 2 will pass to the next year. The low execution level of planned activities for 2004 is mainly due to the insufficient collaboration with the audited parties, in particular as regards the creation of adequate logistical and working conditions and as to the timely availability of relevant information.

Plans for 2005 are:

- IGF has the clear objective to support the development of the SCI, through assisting the functioning of the CCSCI and strengthening its collaboration with other OCIs and its complementarity with the Administrative Court.
- Promote formal and on-the-job-training in order to increase the professional and technical qualifications of IGF personnel.
- During 2005 IGF foresees to implement 174 audit activities against the 141 planned in 2004. In terms of planning, this means an increase by 23%. These activities include:
 - 113 audits of public institutions;
 - 44 activities, including 11 audits and 33 audit opinions, as to municipalities;

- 6 audits of public enterprises;
 - 11 audits of tax and customs authorities.
- Although prioritisation of audits for the following year along certain criteria is annually made by IGF, its work is to some extent subject to high level specific requests, from the Anti-Corruption unit or sector Ministries or donor driven requests coming during the year (as is the case in 2005 for example due to new Ministers taking up duties). This implies a constant adaptation of the plan of operational activities and capacities to satisfy such requests.

7. Design of future indicators to monitor internal audit performance

In order to have a more comprehensive view of the situation of the progress and performance of the internal audit institutions in Mozambique, it is important that in the design of future indicators takes into account the entire SCI and IGF as the focal institution. As a result, it has been agreed that more precise indicators 1) for the SCI and 2) for IGF, should be proposed at the 2005 Mid-year Review for the following years.

External Audit:

Concerning **external audit**, the 2004 PAF indicator was not met. The PAF indicators and targets for 2005-07 have not yet been agreed on. This is a very worrying issue from the PAFs' point of view.

The government reported to the donors about its agreement on the relevance of this aspect of public finance management and hence its intention to establish a constructive dialogue with the Administrative Court (TA) at high level. The government informed that a government technical team, represented by the Ministry of Justice, has been established in order to propose a 2005 PAF indicator before end-May. The PAFs urge the government to pursue this plan in order to allow for a regular monitoring of this importance aspect of public finance management.

On the 12th of May, the group focal point received from the Tribunal Administrativo a set of documents, composed of the Strategic Plan of the TA for the period 2000-2005, the Plan for the second phase of the Pro-Audit project 2005-2006 and a document on the role and responsibilities in the framework of this project.

Recommendation:

As a general recommendation referring to internal and external audit, it is suggested that from 2006 the State Budget allocates adequate resources to audit activities and that the PES has appropriate coverage of the audit area; the PAF 2006 should draw adequate indicators from it for performance of external and internal audit.

Non-PAF issues: MoU auditing requirements

The MoU foresees the delivery of 3 annual audits:

- Value for Money Audit (VfM):

- VfM Audit for the Road Sector: This audit, expected for the end of November 2004, has been released in draft version only in March 2005. The scope and quality of the work appear satisfactory.

The main objective of the Performance audit of the road sector is to assess the effectiveness of the management and control of this sector. In summary, the audit report states that:

1. There has been an improvement as to the allocation of funds that are based on the fuel taxes, during the recent year. However, action needs to be taken to develop and maintain a more regular and sustainable monthly cash flow situation. There exist problems as regards delayed deposit of counterpart funds and on how the VAT should be handled in relation to the donor funds.
2. The present systems for financial control and accounting are not sufficient to assure an efficient management of the sector. One serious disadvantage at present is that the Road Fund is not able to efficiently monitor the whole financial flow including the bank balances of the road sector, since substantial funds from the World Bank and the African Development Bank are not channelled through this institution. Payments to contractors have to a large extent been delayed which have resulted in extra costs. The audit report strongly recommends channelling all funds through the Road Fund.
3. Due to the size and complexity of the financial operations of the road sector it is evident that the road authorities have a great need for more advanced accounting systems including well elaborated budget systems and systems for budget analysis as well as controllers and accountants who can handle these systems, otherwise satisfactory financial control will not be possible. Existing information systems in the provinces based on spreadsheets should be replaced by a uniform standard accounting system of quality permitting necessary reconciliations and audit trails.
4. It is recommended to establish an audit committee linked to the boards of the Road Fund and ANE. The audit committee should assist the board to establish and monitor the financial and accounting controls, monitor financial reporting, coordinate the various audit activities, and assure the implementation of audit recommendations.
5. According to the more technical oriented part of the report, it is concluded that it is not possible to measure to what extent Roads 3 has or has not contributed to the achievements of the PARPA objectives, except in the most general terms.
6. Periodic maintenance and rehabilitation targets were not met and the target proportion of roads in good or fair condition was unlikely to have been achieved. The Roads 3 programme may have been over-optimistic, as it is now significantly delayed by up to two years. This is mainly due to under-performance in management and other areas by ANE. Other than the recent Mid-Term Review there is no single place where overall and specific performance is assessed on a routine basis, and there is no formal annual reporting system.
7. As for the future, the recommendation is that the MOPH is required to ensure that comprehensive and effective monitoring of PARPA objectives vis a vis Roads 3 is undertaken. The MOPH needs as well to hold the ANE Board to

account and resolve any on-going problems associated with the current performance of ANE management.

8. As to the Road Fund, there is good reason to believe that the Fund has performed well in recent years and that it is most likely that this will be sustained in the future.
9. The ECMEPs (Empresas de Construção e Manutenção de Estradas e Pontes, Provincial Companies for the Construction and Maintenance for Roads and Bridges) are inadequately prepared for a viable commercial future and it is necessary to take urgent action in order to implement the planned commercialization process. The private local contractors have made some progress at provincial level, but it is necessary to do a lot more.
10. Finally, the report states that the recent reported progress in the Road sector needs to be confirmed and that the overall value for money is unclear and probably very uneven.

A workshop with government, the audited parties and donors is foreseen in May in order to discuss the main recommendations and conclusions, reach an agreement on the final version of the audit report and define further steps. The document contains important findings and recommendations for the sector and its partners and needs to be followed up, starting at sector technical level.

- VfM Audit for the Drugs Sector: the Pharmaceutical department of MISAU (CMAM) provided comments in April 2005 about the implementation of the 116 recommendations, suggested in the 2003 VfM Audit for the Drugs Sector. The implementation of the IGF recommendations by MISAU seems globally satisfactory. IGF will draw conclusions and follow-up with the sector.
- The planning for the VfM Audit for the Water Sector is under preparation. IGF provided the PAPs with the proposed ToRs, budget and calendar. The Netherlands has been identified as possible donor financing this audit that should be ready before the MyR of September 2005.

There is a need to get the VfM audits into a cycle which delivers the reports in time for the JR each year.

➤ Audit of the Financial Records of the Programme Aid:

This includes:

- The 2004 financial audit of the flow of budget support funds into the Treasury Account;
- The 2000-2002 MB10 financial complementary audit the flow of budget support funds into the Treasury Account.

The final versions of the financial audit of the flow of budget support funds into the Treasury Account for both the period covering 2000-2002 and the year 2004 have been made available only on the 29th April 2005.

Concerning the 2004 financial audit, KPMG reports confirmed that all PAPs funds were properly transferred from the Forex account to the transitory account, up to the central Treasury Account.

As for the MB10 complementary audit, the work done by the external audit company, KPMG, assures that programme's funds were actually transferred from the Forex Account in Frankfurt to the MB10 account as well as the work done by IGF and endorsed by KPMG confirms that the transfers from MB10 to the Central Treasury Account took place appropriately.

➤ Audit of the General State Account:

The Administrative Court audits annually the General State Account. PAPs received both the reports and the opinions by TA on the General State Account for 2002 and 2003 in October 2004. This represented a big effort for the Administrative Court which had to deliver two reports during the same quarter. The 2003 one was indeed produced within the new time limits set by the law, hence for the first time it followed a cycle allowing for their timely assessment.

These documents have been debated by Parliament in April 2005. They contain a wealth of information and their scope and, in some respects, quality are assessed to be reasonably satisfactory. However, the external audit made by the TA could gain in strength if apart from the strictly legal questions whether the budget has been executed according to the law, the TA would also check more what has happened on the ground and not limit itself to a desk study.

In February 2005, the main conclusions of these reports have been discussed between the Ministry of Finance and PAPs in the dialogue on PFM issues. This dialogue on the TA report is seen as positive and should be followed up in the future.

The report on the 2004 General State Account is expected to be available end September 2005.

■

6. WG: Procurement Reform

Performance 2004

PAF performance: indicator not met but some progress in 2005

The 2004 indicator on procurement: “Approve Decree based on international recognized principles on the regulation of contracts for public works, commodities, services and concessions” was not met. It therefore remains valid. The procurement reform process had several delays. Meanwhile exists a draft 4 of the regulation which was discussed in a workshop between Government, the private sector and donors. The outcome of this workshop enables Government to present a draft 5 of the regulation to be shared with stakeholders for comments and discussions. The agreed date for submission of the new regulation to the Council of Ministers is end of June 2005.

In the Aide Memoir of the Joint Review 2004 quick wins for the procurement reform had been agreed. Respective actions should be taken in 2004. The implementation of these actions was in general less satisfactory:

- *Draft legislation to be presented for discussion by the end of May 2004:* a proposal draft 3 was presented in June 2004.
- *Procurement audits to be done in several ministries and their urgent recommendations implemented:* These audits were not initiated in 2004. They are part of the activity programme of the Inspeção Geral das Finanças for 2005.
- *National Commission for Procurement Reform to be set up, to operate until such time as the new regulatory body comes into being:* This commission was not formally established. The functions envisaged for this body have been given to a commission that consisted of the relevant ministries, UTRAFE and UTRESP. This commission was not officially created (by despacho) and was coordinated by the Direcção Nacional de Património until the end of 2004. The coordination was attributed to UTRAFE by the Government at the beginning of 2005.
- *Analyze the relation between procurement reform and PARPA:* This analysis was not done explicitly but the procurement reform is part of the new government programme (plano quinquenal). The relevant wording of the government is in line with the PAF;
- *Evaluate the progress made in the preparation of the procurement reform action plan for 2005 and 2006 in order to improve the procurement function and its supervision (role of the Administrative Tribunal):* This issue is part of the ongoing discussion on the new procurement system. The action plan is behind schedule due to the delays in the preparation and the approval of the new procurement regulation.

Recommendations for 2005 and 2006

Government informed about actions to be taken in 2005. These actions shall facilitate the adoption of a transparent and efficient procurement system and partly compensate for the delays witnessed in 2004. These actions are:

- Up date of the action plan for the procurement reform still in April 2005 for implementation of actions in 2005 and 2006

- Procurement audits in several ministries are part of the activity programme of the Inspeção Geral das Finanças for 2005 (these audits were not initiated in 2004 as agreed in the Joint Review 2004).
- Elaboration of Terms of Reference and contracting of a consultant for the drafting of Standard Bidding Documents.
- Development of a training programme for public officials and suppliers for the explanation and the application of the new regulation. This training programme shall start immediately after the approval of the new procurement code.
- Drafting of the Terms of Reference for a Code of Ethics for Procurement Function and submission of this code to the Government

It was agreed that these measures would be implemented.

The gradual integration of the procurement processes into the system of e-SISTAFE aiming at its implementation and extension towards all sectors, systems and sub-systems remains an important point of the procurement reform.

Indicators for the PAF 2005 agreed on during the Joint Review

For the 2005 PAF the action under the sub-area Procurement remains unchanged:

“Implement a modern procurement system according with the best international practices based on the new procurement regulation and in connection with e-SISTAFE.”

Given the importance of the new procurement code as the legal base of the reform and the new system it was agreed to maintain the 2004 indicator for 2005:

“Approve Decree based on international recognized principles on the regulation of contracts for public works, commodities, services and concessions”

The agreed indicator for 2006 is:

“Creation and start of function of the Supervision Unit for Public Procurement - Unidade de Supervisão de Aquisições Publicas (USAP). “

Area	Objective	Action	Indicator 2005	Indicator 2006
Procurement	Creation of a transparent and efficient procurement system	Implement a modern procurement system according with the best international practices based on the new procurement regulation and in connection with e-SISTAFE	Approve Decree based on international recognized principles on the regulation of contracts for public works, commodities, services and concessions	Creation and start of function of the Supervision Unit for Public Procurement - (USAP)

7. WG: SISTAFE

Summary

Critical progress achieved in the implementation of e-SISTAFE although considerable delays compared with plans.

e-SISTAFE went live in the Ministry of Planning and Finance (MPF) on the 1st of November 2004 allowing financial execution of the State budget through e-SISTAFE. It had been expected that general budget execution of the 2004 State Budget as well as direct budget execution in MPF and Ministry of Education through e-SISTAFE also would have been initiated in 2004. For a number of reasons this was not accomplished. Consequently the 2004 PAF indicator has only partially been met

Challenges remain in relation to reform management and implementation:

There is a need to ensure adequate project management capacity including transparent and efficient procurement arrangements. The IT-security audit to provide assurance about the security and integrity of data is to be undertaken as a matter of urgency.

UTRAFE will need to develop a clear Change Management strategy in order to respond more proactively to the changes associated with the reform within Ministry of Finance (MF) as well as within line ministries.

It is also recommended that UTRAFE elaborate an updated and user-friendly overview of the Public Financial Management reform and its principal elements. This would include a full roll-out plan and a realistic timetable for the e-SISTAFE roll-out to be refined with the experience from Ministry of Education and Culture (MEC).

It is important to start updating in the context of the e-SISTAFE the current budget management practices and systems to improve transparency and efficiency and strengthen budgetary control. Budget coverage must be increased to gradually include all own-generated revenues of budget units and donor funds and to include these funds in e-SISTAFE budget execution.

IMF who has been the leading agency in the reform has signalled that it will redefine its role by the end of 2005. There is thus an urgent need to agree on the approach and scope of continuous support to the Public Financial Management reform

Introduction

1. The 2004-06 PAF matrix has the following indicators related to the efficiency and effectiveness of the management of State funds:
 - Spending in PARPA priority sectors at least 65 pct. of total expenditure less interest payments. Of the 65 pct., at least half in education and in health;
 - Implement budgeting through programs, starting in 5 sectors, among which education and health;
 - Implement the e-SISTAFE.

The two first indicators will be commented elsewhere (PFM group).

2. The PAF target for 2004 in relation to the implementation of e-SISTAFE is roll-out of the system in the Ministry of Planning and Finance (MPF) including all provincial finance directorates and a pilot project in Ministry of Education.

3. 2005 PAF indicators (targets) for SISTAFE were not confirmed during the 2004 Mid Year Review. The SISTAFE Joint Review Working Group has agreed to recommend to the PAF Joint SC the following indicators for 2005:
 - Preparation of semi-annual 2005 budget execution report on the basis of the e-SISTAFE using the new budget classifiers (due 15th August, 2005).
 - Roll-out of e-SISTAFE to Ministry for Education and Culture (MEC) will be completed by December 2005.
 - [Off-budgets. Need for target re. including donor funds in education in e-SISTAFE?]
4. A process for identifying and agreeing on 2006 PAF indicators between partners including the IMF before the 2005 Mid-Year Review needs to be established.

Comments on performance in 2004 (against PAF indicator and strategic commitments and objectives)

1. On November 1 of 2004 e-SISTAFE went live in the MPF allowing financial execution (and not budget execution) of the State budget through e-SISTAFE and payment of tax revenue into the Single Treasury Account (CUT) at the Central Bank of Mozambique, and payments made by the National Treasury and the Provincial Directorates of Planning and Finance (DPPFs). The financial execution involves electronic transfers of all revenues from revenue collecting units' bank accounts into the Single Treasury Account with automatic identification of origin in e-SISTAFE. All payments from the Single Treasury Account are likewise performed as electronic transfers to destination bank accounts commanded by e-SISTAFE and registered according to executing budget unit. For a plan of the roll-out of further functionalities during 2005 see annex I.
2. An important condition for the introduction of e-SISTAFE was the creation of the Single Treasury Account in the Banco de Mozambique. With the opening of the CUT-virtual - or Single Treasury Account - on the 1st of November 2004 the majority of Treasury accounts in the Provinces and at central level were closed, their saldos transferred to the Single Treasury Account and a corresponding number of virtual accounts were opened in e-SISTAFE
3. The introduction of financial execution through e-SISTAFE has been welcomed at the level of the DPPF's as the speed of transfers of funds from central to provincial level has been increased and available liquidity is better used. Furthermore, training activities in e-SISTAFE undertaken in 2004 has been assessed positively at provincial level.
4. However, it was expected that budget execution through e-SISTAFE should have been initiated in 2004. For a number of reasons this was not accomplished.
 - It turned out to be difficult to consolidate in the necessary detail the e-CUT with Treasury Revenue and Expenses at central and provincial level.
 - Furthermore it turned out to be a too complex task to close the "Equação Contabilística" between the actual accounting system (Livro 16 and 17) and the registered financial transactions in the Treasury system.
 - Finally it turned out to be hard to get an updated version of central and provincial budgets because of a lack of registration of budget redistributions (changes) performed during 2004.

For these reasons the process in digitalization of manually kept records in Livro 16 and 17 into e-SISTAFE was given up and budget execution with an updated expenditure position in e-SISTAFE against the 2004 budget was abandoned in the remaining months of 2004.

5. As the digitalization of the entire budget execution recorded in the manual system since the start of the fiscal year was not achieved in the first part of 2004 (cf. above) the operational roll out in Ministry of Education had to be postponed to mid-2005.
6. The e-CUT Física has been in operation since 2 January 2004. The e-CUT Física is intended to identify and track all transactions affecting state accounts in the banking system of Mozambique and to provide a better control over state bank balances. A total of around 12.000 government bank accounts were initially identified in the e-CUT. Since then this number has been reduced to about 6.000 as inactive bank accounts have been closed by Treasury.
7. Legal coverage of the implementation and roll-out of e-SISTAFE is fully guaranteed by the approval by the Council of Ministers on 30/06/2004 of the Decrees that approve the SISTAFE, harmonized with its conceptual model, and revoke Decree 17/2002.
8. Management within UTRAFE has been strengthened during 2004 and e.g. project planning and reporting have improved in terms of quality as well as timeliness. There is, however, still scope for improvement in the resources, organization and planning. The project manager has been in place since June 2004, but the international project management advisor has still not been recruited. There continue to be concerns about UTRAFE's limited procurement capacity (especially taking into account the increasing programme costs).

Comments on remaining issues and challenges

1. There continue to be a need to have an updated and user-friendly overview of the public financial management reform and its principal elements. This would include a full roll-out plan and a realistic timetable for the e-SISTAFE roll-out based on the experience from MEC. A preliminary master plan and a preliminary roll out plan for 2005-08 have been developed at the end of 2004 and will be assessed by the QAG in May 2005.
2. Institutional capacity building will be brought more in focus as the e-SISTAFE is expanded to include the rest of MF and MEC, followed by the implementation of the system in remaining ministries. UTRAFE will need to develop a clear change management strategy in order to respond more proactively to the changes associated with the reform within MF as well as within line ministries. A Change Management Advisor will start working in May 2005 to assist UTRAFE with i.e. developing a change management strategy, and strengthening the Change Management capacity in the e-SISTAFE roll-out teams.
3. Focus on ensuring adequate project management capacity including procurement capacity must be maintained.
4. It is a matter of urgency to undertake an IT-security audit to provide assurance about the security and integrity of data.

5. Concerns have been raised over the sustainability of capacity building and management of the skills transfer process from the international consultants and advisors to local counterparts. It is important to ensure that effective capacity is built in the current support (during 2005) and that new support is based on an explicit strategy for the role of technical assistance in capacity building.
6. IMF who has been the leading agency in the reform has signalled that it will redefine its role by the end of 2005. There is thus an urgent need to agree on the approach and scope of continuous support to the public financial management reform and possible commitment of funds for 2006-08 including government contributions.
7. It is important to update current budget management practices to improve transparency and efficiency and strengthen budgetary control in the context of further broadening and deepening the e-SISTAFE implementation. UTRAFE and DNO are analyzing how to proceed.
8. Budget coverage must be increased to gradually include all own-generated revenues of budget units and donor funds and to include all (donor and own-revenue) funds in e-SISTAFE. In terms of stakeholder coordination and communication clear operational guidelines for bringing donor funds within the state finances through e-SISTAFE would be welcomed. Donors are committed to assist and facilitate the process to the extent possible. A specific task force will be created, consisting of representatives from the Government as well as the international partners, to address the off-budget issue.
9. UTRAFE and DNT are analyzing the need to updating the 1/2004 Diploma regulating the e-CUT Física including the compliance of commercial banks in light of the opening of the e-CUT virtual.
10. e-SISTAFE will significantly improve the ability of the IGF and the TA to perform audits of government sector financial management as transparency is improved and easier access to financial transactions throughout the government sector is provided. The IGF is part of the UTRAFE management structure and has participated in the technical committees developing the SISTAFE conceptual model and the dialogue between the partners must be further deepened. UTRAFE and TA have held a number of meetings regarding the development of e-SISATAFE, but there is nevertheless a need for improving the dialogue between the MF and TA in light of the upcoming roll-out of e-SISTAFE.
11. There seems to be a need to clarify the division of responsibility in relation to e-SISTAFE (e.g. budget) between MF and the Ministry of Development and Planning (MDP). The impact of the divisions of these two ministries on the roll-out and the 2004 PAF-indicator on roll-out to MPF is being analysed by UTRAFE.
12. It is important that SISTAFE is in line with other inter-related PSR processes (payroll reform, deconcentration of central government to district level, etc.) and public financial management capacity building initiatives in MF (and MDP). There seems to be a need to start improving coordination of non-core SISTAFE modules i.e. payroll, state assets etc. between UTRAFE and UTRESP.

Appendix 1 Expected roll-out in 2005

The SISTAFE implementation activities in 2005 are planned to achieve:

Phase I

Stabilization of the Financial Execution through e-SISTAFE of the 2005 state budget through interventions in the National and Provincial Treasuries in the Ministry of Finance and in the Central Bank of Mozambique enabling automatic reconciliation between economic transactions registered in e-SISTAFE and physical transactions in the Single Treasury Account in the Central Bank of Mozambique until May 2005.

Classification of all revenue collected and transferred to the Single Treasury Account in the first semester of 2005 by the Revenue Service of Mozambique using the revenue classifiers in the 2005 state budget by August 2005 and subsequent current classification of collected revenue through the remainder of 2005.

Phase II

Implementation of e-SISTAFE in the Special UGE's in the Ministry of Finance enabling the initiation of budget execution of the state budget 2005 by June 2005. The budget execution will not be direct but will encompass advance payments to all sector ministries through e-SISTAFE with subsequent accounting for expenses by sector ministries through the Ministry of Finance's Special UGE's in e-SISTAFE against the budget limits in the 2005 state budget. Initial activities by the Special UGE's will consist in accounting for all advance payments to sector ministries executed through e-SISTAFE financial execution from January 1st till the time of the implementation of the Special UGE's. This version - apart from providing core Treasury, Budget and Accounting (TOC) functionality - will introduce Financial Programming by Treasury thus enabling the Ministry of Finance to establish spending priorities in e-SISTAFE according to available and forecasted liquidity in the Single Treasury Account, according to availability of funds by revenue source and by other classifiers, this being a prerequisite for moving to phase III and enable direct budget execution (outside Treasury's manual control of spending priorities).

Phase III

Implementation of e-SISTAFE with direct budget execution in the DAF's of the Ministry of Finance and Ministry of Education and Culture by September 2005. This version of e-SISTAFE will provide most of the core TOC functionality; budget maintenance, functionality for direct budget execution including payments and transfers through the banking system, thus enabling on-line enforcement of budget limits at the time of expenditure decisions.

8. WG: Public sector reform (PSR)

Executive summary:

The PAF targets have partially been met. Progress in 2004 has mainly consisted of preparatory action, and limited results are seen in relation to impact on service delivery.

The PAF target for 2004 regarding completion and approval of Functional Analyses (FAs) for six ministries has only partially been met. Out of the six FAs, only two have been formally approved by CIRES – MADER and MIC. Presentation of the remaining four has been rescheduled for April 2005. Preparatory work was undertaken in 2004 for the Medium Term Pay Policy, scheduled for approval in 2005. The national study on good governance, corruption and provision of services was partially completed in the last quarter of 2004, with dissemination re-scheduled for the second quarter of 2005.

A preliminary assessment (to be confirmed after a fundamental review) points to slow progress of the PSR in 2004, independently of good work undertaken by UTRESP on several of the reform components, such as Quick Wins, SIFAP and E-government. However, there are positive expectations in relation to progress of the reform programme in 2005 and beyond, with reference to the strong message from the incoming government regarding the need for progress in this area. There is clearly a need for a proactive and decisive political leadership in general and in particular in the implementing agencies, to ensure progress in each of the reform components. The reform agenda remains broad – and it is important that the GoM clearly identifies priority areas of action and give due focus to these areas.

There is a need for a government endorsed fundamental review of the approach and progress of the reform, to inform the 'implementation phase' of the reform (2006 – 2011). This is needed in time for the MYR, to provide the basis for rethinking the PAF targets for better measuring the impact of the reform.

The donor community must make a further effort to streamline their coordination and simplify the management of the funding of UTRESP.

Assessment of the performance in 2004 PAF:

Broad issues and challenges:

Independently of good work undertaken by UTRESP as catalyst and coordinator of the reform process, progress in 2004 has mainly consisted of preparatory action, with results in relation to impact on service delivery still to be seen. However, this assessment is preliminary and subject to the outcome of the fundamental review proposed for the middle of the year. The review will provide important analysis of the impact of the first phase of the reform programme, and suggestions for the implementation of the second phase. The review will also provide the basis for rethinking the PAF targets for the PSR programme, and should therefore be completed before the MYR.

There are positive expectations in relation to progress of the reform programme in 2005, with reference to the strong message from the incoming government regarding the need for progress in this area. There is clearly a need for a proactive and decisive political leadership in general and in particular in the implementing agencies, to ensure progress in each of the reform components. The reform agenda remains broad – and it is important that the GoM clearly identifies priority areas of action and give due focus to these areas.

Further work is needed to maximise the linkages between the central level PSR activities, and the decentralisation programmes, not least in the FA and restructuring work. There is also a need for further strengthening of the linkages between UTRESP (the coordinating unit) and the sectoral ministries. The consultative approach to the reform process, which was in place at the early stages, must also be strengthened.

PSR Component 1. Improving service delivery through decentralisation and institutional restructuring

Restructuring plans agreed and implementation started in the areas of Health, Education, Agriculture, MAE (Min. of State Admin.), MIC and MPF (2005 – Plans agreed, 2006 – Plans implemented)

The PAF target for 2004 (completion and approval of FAs for six ministries) has only partially been met. Out of the six FAs, only two have been formally approved by CIRESPP – MADER and MIC. The MPF and MINED FAs were presented for peer review in August 2004, but were not presented to CIRESPP in the last quarter of 2004 as planned. MAE has completed its FA, but this has not yet been presented to CIRESPP. MISAU is in the process of completing its second FA consultancy. These four FAs will be presented to CIRESPP for approval in April 2005.

The recent restructuring of several ministries implies a need to revisit some of the FAs. The guidelines for the restructuring plans are underway. It is seen as important that results are achieved in 2005, from the completion of the FAs, in terms of restructuring and improved service delivery.

Progress is being made on the implementation of the *Quick Wins* programme: Conditions have been created to revise the process of issuing identity cards; reengineer the pensions' system; a new decree on commercial licensing was approved by the Government, decentralizing more authority to the provinces. Moreover, the process of digitalizing the land registry has begun as well as the use of ICT in the System of Commercial Licensing (SISCAL).

For an assessment of progress in the area of *decentralisation*, refer to the separate paper on this topic.

PSR Component 2. Strengthening the policy formulation and monitoring process

The consultancy team for the macro structure study of GoM presented an inception report in 2004, but the results of the study have not been shared. Challenges remain in ensuring that the study delivers the objectives set out in the agreed ToRs, and provides the basis for the restructuring work in the ministries.

In relation to implementation of the Government E-network, the pilot phase was completed, linking 13 public institutions to the government network, and a second international consultancy mission was carried out for the preparation of the Electronic Government Strategy and its implementation plan.

PSR Component 3. Enhancing Professionalism in the Public Sector

Government approves Medium Term Pay Policy and implementation started (2005 – policy approved, 2006 – Policy implemented)

Preparatory activities have been undertaken in 2004 for the elaboration of a Medium Term Pay Policy (to be approved in October 2005). This will require that new date for the presentation of the final version pay reform study to CIRESPP (August 2005) is met. Other preparatory action includes the completion of the pay reform study, and initiation of a study of the integration of various personnel databases and work on the SCR (career remuneration system). It is now urgent that this work is taken forward, due to its broad relevance for other aspects of the PSR agenda. It is considered important that the policy includes actions to increase transparency in allocation of non-wage benefits, and integration of these into salary estimates.

Good progress was made on the public administration training programme *SIFAP*, where the three regional IFAPAs are operating, distance learning courses at district level have been initiated, and ISAP has been approved by Council of Ministers. In 2004 students received training through the programme. It will be important to assess impact in a few years time.

In recent years the oGovernment has initiated recruitment through open competition. However, further work needed to ensure the broad application of the principle of *transparent competition and meritocracy* for recruitment of staff in the public sector.

Studies are underway of the effect of *HIV/AIDS* on human resource management of the public sector, and on policy and practice on *gender* in the public sector. It is important that the outcome of this work is reflected in the human resource development plans of the key sector ministries.

PSR Component 4. Financial Management and Accountability / Procurement Reform

Please see separate papers on *SISTAFE* and *Procurement*.

PSR Component 5. Promoting good governance and combating corruption

Undertake a study on Good Governance, corruption and provision of services, and development and implementation anti-corruption strategy (2005)

The national study on good governance, corruption and provision of services was partially completed in the last quarter of 2004, but was not disseminated as anticipated during the MYR. After validation by the WBI of the results, the study is due to be presented to CIRESA for approval in May 2005, and results disseminated by May/ June 2005. The delay in dissemination of the results, compared to earlier target, is unfortunate due to the public importance attached to the study. The national anti-corruption strategy and implementation plan are underway.

It is important to ensure increased use of existing administrative sanctions, as set out in the *Estatutos Gerais de Funcionarios do Estado*, in combating corruption. The Law on anti-corruption was approved in 2004. Among other things, the Law establishes a High Authority for Combat of Corruption. Many alleged corruption cases were in 2004 reported to the High Authority, but the rate of concluded investigations and convictions has so far been extremely low. The GoM has not yet ratified the UN convention and the SADC protocol on corruption, and it is important that this is done.

For an assessment of progress in the area of *legal sector reform*, please refer to the separate paper on this topic.

PSR Component 6. Management of the reform process

The Change Management network and training programme was launched in the first half of the year. Further work in this area to ensure the consolidation of the change management process in the ministries, district and provincial administration in support of the restructuring process will be essential to develop ownership and the required culture change for implementation of service delivery.

Key recommendations and lessons learned:

There is an urgent need for a government endorsed fundamental review to inform the next phase of the reform process – ‘the implementation phase’ (2006 – 2011). The fundamental review, proposed for the middle of 2005, will address, but will not be limited to, issues such as an assessment of human and financial resource requirements for implementing the reforms, and the implementation approach including commitment of implementing agencies. The review will provide the basis for suggestions for the implementation of phase two, and the setting of priorities as well as a redefinition of the PAF targets for PSR, to ensure increased focus on the impact of the reform activities.

The donor community must make further efforts to streamline coordination and simplify management of the funding of UTRESP. This includes the challenge of harmonisation of various donors support programmes, as well as simplified procedures for approval of activities and expenditure.

9. WG: Decentralisation

Executive Summary

In 2004 the Government was well on the way to deconcentration. The target of introducing district planning was surpassed. Although approval of the regulations for Law 8/2003 was delayed, they were approved by the Council of Ministers in April 2005. The participatory planning and budget process, accountability and the assumption of responsibility by Local State Bodies made substantial progress in districts in Nampula, where there was profound and innovative work. Nevertheless, pertinent issues relating to quality, and the vertical and horizontal integration of district budgets and development plans with a poverty focus, still need to be addressed in the context of the strategic objectives of PARPA, the public sector reform strategy and the government's five-year plan. The allocation of budgets and their execution at the sub-national levels of public administration continue to be a source of concern for the PAPs from a methodological, quantitative distributional point of view. Off-budget expenditure and revenue are not counted systematically and the percentage of the budget that goes to the provinces and districts is still not transparent in the sectors and appears to be stagnating. In the districts, the percentage has remained virtually unchanged over the last ten years despite the government's commitment to the decentralization process. Resources are not being allocated to areas with the highest rates of poverty. The dynamics of municipal development can also be questioned, with the Government apparently concentrating more on "consolidation" than on quantitative and qualitative expansion. Accountability and the assumption of responsibility by sub-national governments, including municipalities, continue to be a challenge. Other challenges in the coming years will be the creation of a vertical planning and budgeting system that is reconciled with the logic of sector, territorial and administrative planning, based on a legal framework, the definition of specific functions (and allocation of resources) for each level of public administration and in the sectors ("subsidiarity"), the consolidation of key elements of the decentralization policy through an operational strategy that includes sectors (road map for implementation), and finally better integration of cross-cutting aspects in policies and programs, especially HIV/AIDS, the environment, natural resource management and gender.

Section 1: Progress on the PAF indicators

Indicator	Objective 2004	Conceived 2004	Qualification
Introduction of district planning (N° districts)	37	48	Objective surpassed
Date of approval of the LLSB 8/2003 regulations. Implementation of the law.	1st half 2004	Not approved	Objective not achieved

At the end of 2000 district participatory planning methodologies were introduced in 48 districts in eight provinces. However, the quantitative nature of the indicator ignores the quality aspect of the district plans. There is concern that the priority of producing short-term plans could compromise the long-term objective, focusing on participatory processes and building capacity for more efficient service delivery. To what extent community participation in the planning process has been systematized is not clear, nor is the role of the district plan in the national planning system. The district planning function (according to the definition in the Law on Local State Bodies (LLSB) needs to be inserted into a clear legal framework for

the DDP and the district PES/budget. The planning timetable for the preparation of the district, provincial and national PES/ budget needs to be synchronized.

The draft LLSB regulations were discussed with administrators, ministry sectors and donors and the final version was approved in April 2005, not in 2004 as foreseen in the PAF. One of the reasons for the delay was the revision of the Constitution. The group is concerned about the consequences of the delay in approving these regulations, in particular with regard to the dissemination and application of the LLSB and their impact on decentralized district planning programs.

Section 2: Performance in relation to Strategic Objectives

In the PAF matrix the decentralization area is linked to the strategic objective "creation of a favourable environment for the private sector". It would be more appropriate to link it to the strategic objective of poverty reduction and regional inequality.

It is difficult to make any specific comment on the government's performance in relation to this objective. Nevertheless, outside the decentralized planning and finance programme, progress towards decentralization and deconcentration was limited in 2004, as shown by the *Report on the Status of the PES*. In the Government Program (1999-2004) and the PARPA, local governments and municipalities (as well as the private sector, communities etc.) have been given the main role of executing agencies for central government policies. The responsibility of the latter is essentially to formulate policies, monitor and define a regulatory framework. There is, however, little evidence that this has happened and this raises doubts about the "gradualism" issue.

Section 3: Provinces, districts and municipalities in budget execution in 2004

It is difficult to compare budget execution in 2000 with that in previous years because the General State Accounts (GSA) for 2004 are still not available. Figures from previous years show a substantial difference between the GSA and the budget figures.

According to the budget figures, the share of provincial allocations was 36% in 2004 compared to 34% in 2003, as slight increase. If we compare this with the biennium 2000-2001 there is an overall downward trend. In 2004 the share of the investment budget was less than in 2003 but it continues to be higher when compared with 2000-2001, due to a rise in the central investment budget. The budget figures for the share of the periodic budget were slightly higher than in 2003, at both provincial and central level. The budget figures for provincial expenditure in 2004 still do not include additional investments made through SWAPs or **off-budget expenditure**. Their inclusion could double the provincial investment budgets.

In the case of both the periodic and the investment budget **provincial expenditure is still geographically unequal**. Although the respective actions in the periodic budgets have been more or less stable over the last five years, per capita expenditure is still structurally favourable to the provinces of Maputo, Sofala, Niassa and Tete, while the share of Zambezia and Nampula has been lower. The allocation of periodic expenditure tends to follow the size of the provincial state apparatus rather than the size of the population or poverty indicators. This distribution is even more distorted and variable in the investment budget for the same period. Maputo city, Niassa and Sofala received above average investment expenditure per capita, while Zambezia and Nampula have only 50% and 67% respectively. According to INE data, these two provinces plus Inhambane and Tete provinces are the poorest provinces in the country.

The total budget share of the 128 districts is about 1,2% (USD 15M). Average expenditure per district (mainly operating expenditure) is about \$117.000 per year - the same as ten years ago. The 33 municipalities received less than 1% of the total budget as a direct to

transfer (less than the target set by the Law on Local Finance i.e. 1,5-3%). The total allocation for the municipalities in 2004 was MZM 200 billion (10 million USD), 50% of which went to the five biggest municipalities (Maputo, Beira, Nampula, Nacala and Quelimane). The other 28 municipalities had to share the remainder, making an average of some USD 180,000 each.

In comparative terms (and based on a study by MAE) economic activity in the 33 municipalities provides 85% of fiscal revenue (collected by the state through the RFe, almost all of which is transferred to the central state budget) and 60% of GDP, but the FCA only represents about 1,1% of the budget (year: 2002), and the FIL accounted for 0,7%. This means that the state only transferred 1,8% to the municipalities through these channels.

Section 4: Fundamental cross-cutting reforms

Decentralisation is one of the six key components of the **Public Sector Reform programme** (PSR). Although some ministries have taken decentralization initiatives - for example, MIC in the licensing field - there is still no comprehensive and coordinated process for decentralising functions, competence and resources to lower levels. The municipalisation process has virtually come to a standstill. Although municipal elections were held successfully at the end of 2003, no new municipalities were declared. However, MAE is conducting a study as to which services should be decentralised to the municipalities in the light of the PARPA priorities.

*Although there has been some progress in **public financial management**, there are also some concerns. **Progress** is linked to the successful attempt by district governments in Nampula province, facilitated by the national PPDF, to promote a complete planning and a budgeting cycle through the preparation of PDDs and district PES/ budgets. The district PES/budgets reflect all kinds and sources of revenue (fees, sector transfers, local taxes). This helps to increase the coherence of the district budget and the information on the availability of resources, leading to greater transparency. In addition, the district PES/budgets were successfully harmonized with the provincial and sector PES/budgets.*

One area that **warrants special attention** is the fact that the district PES/budget is still unable to catch direct ministry expenditure at the district level. This would facilitate clearer monitoring of the overall expenditure of each administration. It is clear that there should be a **survey of all internal and external investment resources by province, district and municipality** that shows clearly the definition of responsibility.

Also related to **financial management**, the management of many **municipalities** faces serious problems of inefficiency and absence of accountability and transparency in the collection and use of funds and assets. It would be important to consider strengthening the internal and external audit system through the IGF and TA, and also publication of the TA reports.

It would be useful to clarify how **SISTAFE** will be “piloted” in Ministries and in accordance with the timetable. There should also be greater commitment to using SISTAFE as a major instrument for planning and managing public expenditure and revenue (among others: Medium Term Fiscal Scenario and budgeting program) rather than just an accounting package. (Input to be confirmed with the financial management group).

The integration of **HIV/AIDS** and **gender** in decentralization is a special challenge and some preliminary work on the ease issue is underway in the PPDF. Similarly, work has also started on placing **natural resource and environmental management** on the agendas of local governments and this is being harmonised with the central government (MICOA).

Section 5: Future expectations

There are grounds for greater optimism. The new government has already reaffirmed its commitment to supporting the expansion of participatory planning and greater accountability. The consolidation of elements of the policy through a Decentralization and Deconcentration Strategy (PAF indicator for 2005) will help the various levels of government to reach agreement and work towards common objectives. It is recommended that this policy document be the result of a **consultative** process with local governments and as part of the PARPA II scheme. As part of this process it will be important to define the concept of “**subsidiarity**”, among others: to define which government functions should be carried out at central, provincial, district and municipality level.

Another important activity is the **creation of a vertical planning and budget system reconciled with the logic of territorial and administrative planning** based on a common legal framework. The innovative work in Nampula on the preparation of the district PES/budget and its harmonisation with the provincial/sector PES/budget has served as a model for the rest of the country and could continue to do so.

The **functional analysis and restructuring** of key ministries is extremely important for promoting decentralization and the deconcentration of competence. Law 8/2003 will have been considered in the preparation of the functional analyses, but the recent approval of the Law’s regulations and the future policy/strategy of decentralization and deconcentration will facilitate the integration of decentralization aspects into the restructuring of ministries.

MAE recently announced that it is going to prepare strategic plan. This is an initiative that should be encouraged as it provides an opportunity to move forwards towards decentralization. In addition, the group recommends that “**gradualism**” be clearly defined and clear objectives adopted.

There is a need to prepare a manual **on district finances** that clarifies both the district as a budget unit and its insertion in SISTAFE, and also the district’s retention of revenue. DNPO could eventually provide a detailed comparative analysis of expenditure on a territorial and per capita basis in the report on the execution of both the periodic and the investment budgets.

The **accountability** of the local government must be defined and monitored. There is a need to clarify fiscal decentralization (local authorities and the budget sector). Consideration should be given to the establishment of formulae for allocating funds to the District Government. One essential prerequisite is a move towards a **stable and predictable inter-governmental fiscal system**.

As regards **procurement** it was noted that the lack of autonomy and the absence of clear norms on procurement by districts is an obstacle to decentralized planning. Reviews of procurement systems must take this back into consideration.

Finally, it is recommended that the government take the lead and exert stronger ownership of their national decentralization program. For the mid-term PAF review, it would be useful if the government could define new **strategic indicators** for the decentralization and deconcentration and link them to the appropriate strategic objectives.

10. WG: Justice Sector Reform - Technical Group

Executive summary

The assessment of the targets defined for PAF 2004, despite showing some advances, does not reflect a substantial improvement in the justice service delivery. The current constraints will continue to affect the appropriate functioning of the sector, if the reform process is not resumed with a strong impetus.

The overcrowded prisons, the lack of legal representation and assistance for the disadvantaged, the insecurity with regard to enforcement of contract obligations even in relation to small scale businesses, the shortage and limitations of justice services both formal and informal at district and community level, are elements which slow down efforts of promoting poverty reduction. The sector should target service delivery towards the disadvantaged strata of the population and promote development by contributing to the creation of a favourable business climate.

The slow progress in the justice sector and public sector reform may undermine the confidence of the citizens in the democratic institutions of the state and in its capacity to combat crime, corruption, ensure predictability and to promote social justice, elements which are all fundamental in consolidating peace, national unity and democracy.

The technical group considers it essential that the justice sector urgently resume the process of elaborating of a long term sector reform, strengthen the dialogue with the civil society and the sector's international partners, explore alternative and extra-judicial auxiliary assistance to reduce the volume of work and to ensure protection of human rights.

Finally, it is recommended that the sector establish mechanisms for inter-institutional coordination with regard to planning, budgeting and monitoring and evaluation of compliance with the institutional plans and in relation to implementation of the PARPA.

Assessment of the indicators PAF/PES 2004

Strategic objective	Area	Sub-area	Objectives	Activities/Indicators	Targets	Achieved
	Good Governance	Justice sector reform	Increase the efficiency in the service delivery of the judicial system	Increase the number of finalised judicial cases (verdicts/sentences/judgements)	20%	Met
				Reduce the number of prisoners awaiting indictment and trial	65%	Not met
			Simplify and more swift processing of judicial cases	Long term reform programme, including a planning, budgeting and monitoring system	Submit to Council of Ministers	No met
				Legislative reform: Civil and Penal Procedure, Penal Code, Organisational Law for the Judiciary, Notary, Civil Registry, and Prisons	Submit to Council of Ministers and/or the Parliament	
		Public Sector Reform	Fight against corruption	Survey regarding corruption in the justice sector	Survey finalised and published	Met (finalised to be published early 2005)
				Action plan approved and implementation initiated		
				Increased resources by the Government (particularly to the personnel of the Anti-Corruption Units)		Not met (increase - resource allocation to the Pros, Services in general, including a substantial salary increase)
Creation of a favourable business climate	Ad hoc legal reforms			Revision of the Labour Law and submitted to the parliament		Not met (partially met)
				Commercial Code, submitted to parliament		Not met

Observations

The reform process of the sector continues to be slow showing few significant advances since MYR 2004. In particular it should be mentioned that:

- The Vision document an essential document for the reform programme of the sector is not yet finalised except for the first chapter. Consequently, the revision of the Integrated Strategic Plan (PEI) and the Operational Plans of the Integrated Strategic Plan (POPEI) has not yet started.
- CCLJ is not yet formally constituted.
- POPEI has become an instrument for planning and budgeting at an institutional and technical level.
- Regarding mechanisms for Monitoring and Assessment, some progress was made, particularly with regard to improvement of the statistical information systems at the institutional level. However, a harmonised and consolidated system for the collection of data, monitoring and evaluation of common result indicators focused on service delivery and access to justice has not been created. In particular, statistical information regarding the situation at the district level is not collected and categorised on a systematic basis which impedes a complete overview. Consequently, there is no link to the more overall monitoring and evaluation of the implementation of the PARPA.
- There is still no link between the implementation of the PEI of the justice sector and the Strategic Plan for the police force and there was no progress regarding the institutional and functional issues related to the Criminal Investigative Police (PIC) as a key investigative organ within the administration of penal justice.

Performance of the courts: In 2004 the courts registered an increase in the number of finalised cases by 33% (sentences/verdicts/judgements) compared to the number of finalised cases in 2003 (2003: 18.674 – 2004: 24.737) however, with an increase in the total number of pending cases by 3.2%. As the below table shows, this means that the target regarding finalised judicial cases was achieved. It is believed that the increase in case disposition is owed to the fact that more magistrates and prosecutors have undergone post-graduate and refreshment courses, that they have been appointed to the courts and prosecution services both at provincial and district levels and that the working conditions within the judicial apparatus has improved (it should be noted that the prosecution services has six prosecutors who have graduated from one of the Law Faculties placed at the district level and there is foreseen that eleven more will be posted within short).

Table. Summary of case disposition – at the level of the Provincial Courts and the Supreme Court between 1998 and 2004

	1998	1999	2000	2001	2002	2003	2004*	2005*	2006	2007
Pending cases from previous year.	SC 934	SC 990	SC 1.152	SC 1.182	SC 1.121	SC 1.013	SC 1.061	SC 1.100		
	PC 117.960	PC 130.135	PC 127.642	PC 83.705	PC 89.290	PC 97.231	PC 102.175	PC 105.491		
	Total 118.894	Total 132.115	Total 128.794	Total 84.887	Total 90.411	Total 98.244	Total 103.236	Total 106.591		
Finalised cases (sentences/ verdicts/ judgements)	SC 136	SC 131	SC 188	SC 306	SC 326	SC 123	SC 201			
	PC 10.446	PC 25.348	PC 17.626	PC 19.528	PC 14.929	PC 18.551	PC 24.737			
	Total 10.582	Total 25.515	Total 17.814	Total 19.834	Total 15.255	Total 18.674	Total 24.938			
New entries of cases	SC 185	SC 292	SC 223	SC 245	SC 218	SC 171	SC 417			
	PC 21.935	PC 22.855	PC 20.193	PC 25.113	PC 22.336	PC 21.884	PC 28.053			
	Total 22.120	Total 23.147	Total 20.416	Total 25.358	Total 22.554	Total 22.055	Total 28.470			
Total pending cases and new entries	141.014	155.262	149.210	110.245	112.965	120.299	131.706			
% of finalised cases	7.5%	16.4%	11.9%	18%	13%	15.5%	18.9%			
Variation % finalised and new entries		141%	-30.2%	11.3%	-23%	22.4%	33.5%			
Difference between entering and finalised cases	22.120	23.147	20.416	25.358	22.554	22.055	28.470			
	10.582	25.515	17.814	19.834	15.255	18.674	24.938			
	11.538	-2.368	2.602	5.524	7.299	3.381	3.532			

Variation % between finalised cases and new entries	47.8 %	110.2%	87.2%	78.2%	67.6%	84.6%	87.6%			
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Observations to the statistics

- 1) The statistical data used for the table are not yet official and certain alterations may therefore still be introduced. The Justice Sector Technical Group should therefore confirm the data before the MYR 2005.
- 2) As one may see from the table, there are two ways to calculate and show the % of the case disposition. One is the % of the finalised judicial cases in relation to total number of entering and pending cases in a given year and another is to show the % variation of finalised judicial cases in relation to the previous year. Based on this table one may see that the productivity in case disposition is increasing but the total volume of the case-load which in 2000 dropped quite significantly has been steadily increasing since 2001. The drop from 2000 to 2001 happened partly due to the a significant re-shuffling of the case-load from the provincial to city/district level after the introduction of a law enlarging quite substantially the jurisdiction at the district level. It is therefore proposed that the issues related to what is to be measured and how, are clarified to ensure improved accuracy regarding judicial performance with regard to the monitoring of the PAF targets.

The group of prisoners (detained) awaiting arraignment and trial continues to constitute the biggest number of the prison population. The statistics produced by the Technical Unit for the Unification of the Prison System (UTUSP) show by data discriminated between the prisons under the responsibility of the Ministry of Interior and the Ministry of Justice that the PAF target for 2004 was not met.

The legislative reform is progressing as planned and has achieved the following results:

- The Civil Registry Code: Approved by Parliament.
- The reform of the Civil Procedural Code: The approval of the code is foreseen by mid-year 2005. The present proposal will ensure less costly and swifter processing of cases related to contract enforcement.
- The reform of the Commercial Code: Approval foreseen by mid-year 2005.
- The Commercial Registry Code: Approval foreseen by mid-year 2005.
- The reform of the Penal Code and the Penal Procedural Code: To be deliberated upon by the Parliament in the sitting October-December 2005.
- The reform of the Notary Code: Will imply a drastic reduction in legal dispositions/acts which validity depends on verification by the Notary Services. Approval foreseen by mid-year 2005.
- The reform of the Labour Code: The TORs for the reform was approved after a period of broad civil society hearing (including private sector and labour unions). Awaiting commencement of the legislative revision work.
- The reform of the organisational set up of the judiciary, the Community Courts and free legal representation and assistance: A proposal for a law which provides the fundamental guidelines and basis for the future administration of justice and the judicial apparatus has been elaborated and public debate of this proposal is planned for May 2005. Based on this law the following laws will be produced:
 - Law on the Organisational Structure of the Judiciary including creation of Commercial Sections;
 - Law on the Community Courts;
 - Law on Legal Representation and Assistance to the Disadvantaged;
 - Revision of the Code on Judicial Fees, to ensure reduction in such costs as well as simplification and rationalisation.

The fight against corruption.

This relates to two levels. One relates to the fight against corruption within the justice sector and the other to the fight against corruption using judicial means (the punitive side of anti-corruption work).

Regarding the first, the survey conducted under the responsibility of UTRESP has not yet been published, even though a proposal for an anti-corruption strategy is being circulated. The survey includes the justice sector and it is therefore of immediate interest that the results are made known. A more specific study regarding the integrity of the judiciary was conducted in 2004 by CFJJ in collaboration with the Supreme Court and UNODC. The publication of this study is planned for mid-year 2005 after a national seminar whereby the study will be discussed. The study will be followed up by a similar integrity study covering the prosecutors and court/prosecution officials.

Regarding the second, the Anti-Corruption Unit (Central Office for Anti-Corruption to be created) handled 171 cases which resulted in 22 criminal proceedings, of which 17 led to indictments and five were shelved. The remaining 119 cases are in the initial phase of investigations and the rest has been distributed to other institutions. Out of this caseload there are no convictions so far. The majority of denounced cases relate to significant embezzlement of state funds and goods.

There is so far no public information regarding the state of the investigation of so-called high profile cases, such as the Siba Siba case and bank fraud-cases.

Recommendations

- Resume with impetus the elaboration of the vision document and consequently the revision of the strategic documents of the sector with a better integration between the justice sector and the police particularly the investigative police (PIC).
- Establish an articulation and continuous coordination between the justice sector and the international partners. The CCLJ should spearhead this process.
- Strengthen the statistical and information systems of the institutions and promote harmonisation between them. Create a harmonised monitoring and evaluation system including the identification of result indicators targeting service delivery and access to justice. Such an exercise is also expected to result in introduction of monitoring indicators in the PARPA II.
- Such a harmonised monitoring and evaluation system of the justice sector should include indicators that demonstrate the impact of justice service delivery and judicial conflict management in the below mentioned cross-cutting areas.
- Sector analysis regarding the opportunities contained in strengthening the integration between the justice sector and the public sector reform, taking into consideration the particular characteristics of the justice sector institutions.
- Despite the fact that the target with regard to judicial statistics was achieved for 2004, the statistics show that the number of judicial cases entering the system is increasing steadily, causing a constant increase in the total volume of pending cases. Confronted by this situation, it therefore seems necessary that the judicial sector take measures that go beyond the mere increase in productivity of the work of each magistrate and prosecutor. In this respect the following is recommended:
 - Action should be taken in order to close the so-called “dead wood” of the pending cases;
 - A partnership should be established between the judicial apparatus and the civil society (academics, retired magistrates and prosecutors, interns (magistrates and prosecutors to be) studying at CFJJ and the Bar Association etc.

- The justice sector should open up in relation to sounding out and involve civil society organisations and institutions of the state such as the Bar Association, IPAJ and NGO's working in the human rights field regarding their concerns related to the justice sector.
 - The Inspection Services of the Judiciary and the Prosecution services should work in a manner that ensure that the results of their inspections are used as criteria to measure performance of the magistrates and the prosecutors.
- The same openness with regard to external resources should be practised with regard to the attempts in reducing the number of detainees awaiting accusation and trial. The introduction of legal assistance services at the main prisons, such as the case of the Central Prison of Maputo may assist in detect and curb the situation of illegal imprisonments.
 - Introduction of indicators in the PAF matrix as was agreed during the MYR 2004.

Cross-cutting issues:

1. Gender:

Taking into account the Government's international commitment and obligations following the ratification of international instruments promoting gender equality and the elimination of all discrimination against women, a consultative mechanism including representatives from the civil society, MIMAS, Min. Jus., Centre for Legal and Judicial Training and the Technical Unit for Legal Reform, should be set up to ensure that:

- a gender perspective is applied with regard to all legislative reform work
- justice service delivery respond effectively to specific women's concern's, claims and protection needs.
- the reform of the Penal Code and the Penal Procedural Code include domestic violence in an adequate and effective manner to guarantee full legal protection against such crime,
- the legal aspects of abortion is analysed, recommendations issued and that the legislation is revised accordingly.
- the legal aspects of abortion is analysed and the legislation revised accordingly.

2. HIV/AIDS Highly vulnerable groups- urgent need for HIV treatment in prison population

- The conclusions of available surveys conducted in prisons so far⁹ and the experience of church organisations¹⁰ providing anti-retroviral therapy to prisoners are valuable inputs for drafting an emergency action in 2005 given the dramatic situation.
- Parallel to the above a more representative survey should be carried out regarding the impact of HIV/AIDS in the prison population as well as in the prison staff and to provide a background for an action plan to handle this issue.

Preventive measures in the sector

- Another survey should be carried out to identify the various target groups in the sector, vulnerability and the impact of the pandemic on the human resource situation. Such a survey should include recommendations for how to handle these issues and how to link up to ongoing programmes and coordination efforts through for instance

⁹ 1) A situação do HIV/,SIDA nas prisões, Maputo Fevereiro de 2002m MINT, 2) CAP study in the Central prison of Maputo, financed by Open Society Institute in 2004, 3) Minimum standards and HIV/AIDS in prisons by UN Raport E/CN.4/2005/38 3 December 2004

¹⁰ Santo Egidio

the CNCS to improve the information flow and internal articulation with the aim of counteracting the effects and developing an action plan.

Environment

- In 2004 training was provided in the area of Environmental Law, natural resource management and land issues for magistrates of the judiciary and the prosecution services and for other lawyers. This should be followed up by monitoring of the case load of the judiciary to explore how many cases in this area are entering the judiciary, how they are handled and in cases of conviction how and to what extent such convictions are executed, and the need for further capacity building in this areas.
- Taking into account Article 81 of the 2004 Constitution which opens up for so-called class actions (*acção popular*) before the courts and art. 81, 2 b in particular, which stipulates such a collective right with regard to the promotion of prevention of, termination of, or judicial persecution against violation of regulations represervation of the environment.....and article 90 that says that all citizens has the right to live in a balanced environment and a duty to defend it, it is urgent that the bill prepared by Parliament in Cooperation with the Center for Legal and Judicial Training regarding the substance and procedures in the area of class action is moved forward.

11. WG: Financial Sector

Executive Summary

1. **2004 Performance:** For the Financial Sector, the PAF 2004 identified 8 targets related to 5 actions for 2 objectives. The FSWG has rated the GoM's performance against PAF 2004 indicators as **Fairly Good**. The progress has been rated good for 4 targets, fair for 2 targets, and poor for 2 targets. The targets and their ratings are given below. For the four targets where the rating was poor or fair, it is expected that the target will be met during 2005.

PAF 2004 Action and Target	Performance
Forensic audit of BAu started	Fair
Strategy and timetable for IFRS in the financial sector prepared	Good
Regulations for LICSF (Banking Institutions Law) prepared	Good
LFL (Law for Bankruptcy) submitted to parliament	Poor
Withdrawal of GoM participation in BAu initiated	Good
Strategy for state withdrawal at BIM defined	Fair
Strategy for public company participation in financial sector developed	Poor
New Chart of Accounts for Insurance Sector prepared	Good

2. The FSWG was not able to conclude on the GoM's performance against the two broader objectives. While the supervision capacity of Banco de Mozambique continues to be reinforced, there is limited information to assess whether there has been improvement of financial intermediation especially for micro, small and medium enterprises. In order to address this issue the FSWG will obtain the necessary information for the next review and will also propose new indicators for 2006.
3. **Future prospects / Issues:** The PAF 2005 identifies 5 targets for the 4 actions related to 3 objectives (an objective related to improvement of the insurance and pensions sectors was added). Progress to date on these targets is mixed. Some targets may be met during 2005 while others could be delayed to 2006.
4. The FSWG has begun working on defining new objectives, actions and indicators for PAF 2006. These will be linked to the strategy identified in the GoM's five year plan. The FSWG will develop 10-12 actions that will be submitted for inclusion in the 2006 PES and a subset of 5 actions that will be proposed for inclusion in the 2006 PAF.

Introduction

5. For the 2005 JR, there have been changes to the FSWG. There are new focal persons from GoM side (Joanna David, BoM) and from the development partners (Simon Vanden Broeke, DFID and Ravi Ruparel, World Bank). The membership of the group has also expanded with new members – from GoM, development partners and civil society.

Assessment of Performance in 2004

6. *Performance against PAF indicators / targets:* The performance against the PAF 2004 indicators is rated as **fairly good**. The progress has been rated good for 4 targets, fair for 2 targets, and poor for 2 targets (see Table 1). For the two targets where the rating was fair it is expected that the target will be met during 2005. For the two targets where the rating was poor, the target may not be met in 2005.
7. *Performance against 2004 PAF objective:* The FSWG was not able to conclude on the GoM's performance against the two broader objectives. While the supervision capacity of Banco de Mozambique continues to be reinforced, there is limited information to assess whether there has been improvement of financial intermediation especially for micro, small and medium enterprises. For the JR 2006, the FSWG will obtain the necessary information to assess the performance against objectives.
8. *Performance against other commitments:* In the Financial Sector the GoM has also made commitments to the IMF (see Table 2) and the World Bank (see Table 3). Many of the actions/ commitments are similar to the PAF actions. (E.g. transition to IFRS, divestiture from BIM). However there is one specific commitment under the IMF's PRGF that is not in the PAF. This is the establishment of a Financial Investigations Unit: This benchmark for December 2004 was not met. The GoM has developed an action plan and timetable and expects to have the unit established by December 2006 (with assistance from the AfDB under the FSTAP).

Sub Sectoral Performance and Issues

9. *Banking:* There have been efforts made to strengthen banking supervision. A new inspection manual is being drafted and models for applying the regulation on consolidated supervision are being developed. There has been an increase in the number of staff and a draft of a new regulation on the assessment of, classification, and provisioning of loans is being prepared. During 2004, the banking sector showed an improvement in capital adequacy indicators and asset quality indicators. Interest rates fell and the spread decreased, and there was an increase in private sector credit (in real terms). There has also been increased monetarization of the economy, especially in the urban areas.
10. *Micro and Rural Finance:* The sub sector has shown continued growth in terms of outstanding portfolio (approx. USD 18 million as at December 2004). However this is more due to an increase in average loan sizes (nearing USD 300) as the number of credit clients has been growing only moderately and reached approx. 60,000 at the end of 2004. Savings mobilization has developed positively, especially since the market leader (NovoBanco) has intensified its efforts and has around 15,000 savings accounts. The sector has seen a concentration in market shares with the top 3 providers NovoBanco, Socremo and Tchuma currently accounting for approx. 80% of the outstanding portfolio. Geographical expansion of the big MFIs is gaining momentum and new branches are being opened in the Central and Northern provinces as increased competition in Maputo forces the MFIs to look at other provinces to grow and reach economies of scale. Development of new products has been mainly driven by the market leaders NovoBanco and Socremo, which already offer housing loans, consumer credits, money change services and national as well as international money transfer. NovoBanco is planning to introduce ATM services for its clients. Interest rates for credit clients have remained steady at around 3-5% per month for microclients depending on credit size and risk.

c. *Insurance*: In 2003 total insurance coverage (life and non-life) was around 1, 073 billion MZM (approx 1.1% of GDP).¹¹ The non-life sector dominates the Mozambican insurance market with 77% of total insurance coverage in 2003. In 2003 there was an increase in non life cover particularly for automobile, fire and personal policies. The insurance market has 5 companies and 15 insurance brokers with two companies (SIM and the state owned EMOSE) accounting for almost 80% of the market share.

Future prospects and Issues

11. *PAF 2005*: The PAF 2005 identifies 5 targets for the 4 actions related to 3 objectives (an objective related to improvement of the insurance and pensions sectors was added). Progress to date on these targets is mixed. Some targets may be met during 2005 while others could be delayed to 2006. (see Table 4)
12. *PAF 2006* : The FSWG has begun working on defining new objectives, actions and indicators for PAF 2006. The FSWG will develop 10-12 actions that will be submitted for inclusion in the 2006 PES and a subset of 5 actions that will be proposed for inclusion in the 2006 PAF. The FSWG did not discuss in detail all the actions that would be considered for PAF 2006. However a strong case was made for conducting an analytic inventory of existing public instruments for financing of private enterprises. The analysis will cover the many various fundos de fomento and treasury lending through acordos de retrocessao, as well as public participation in financing institutions, and other relevant mechanisms. It will review opportunities for rationalisation and improvement of their effectiveness.
13. *Link to GoM Strategy*: The objectives, actions and indicators for the 2006 PES and PAF will be linked to the following financial sector objectives described in the GoM's five year plan. :
 - modernize the expansion of the financial system;
 - reinforce regulation and supervision and reduce vulnerability that might affect the financial system;
 - encourage and promote entry of new financial institutions therefore increasing competition and diversifying products of the financial market
 - promote measure to expand the banking services for better regional coverage with emphasis to the rural areas;
 - continue with actions towards contribution to the growth of national savings;
 - promote the emergence of credit institutions specialized in micro-finance;
 - increase the degree of monetization of the national economy;
 - adopt international accounting standards;
 - expand financial services in rural areas
 - develop financial services accessible to the medium enterprises & family aggregates;
 - Improve a insurance services and social protection

FSWG Activities:

14. *Frequency of Meetings*: In the past the FSWG has only met twice a year at JR and MTR. During the meetings for the JR 2005, the FSWG has decided to meet more regularly (every 3 months). These meetings will be coordinated by Joanna David and Simon Vanden Broeke. The current composition of the FSWG is provided in Table 6.
15. *Objectives of meetings*: During the April 2005 meeting, the FSWG agreed that future FSWG meetings will be used to :

¹¹ THIS FIGURE NEEDS TO BE CHECKED BY IGS/AFDB

- track performance against PAF indicators;
- discuss sectoral issues;
- used to monitor performance against indicators which are in the PES but not the PAF;
- develop new objectives, actions ,and indicators;
- discuss approaches to obtain the information required in the Joint Review with regard to performance regarding gender, HIV/AIDS and to provide a province/district perspective;
- share information regarding TA project activities (see Table 5 for the current design of the Financial Sector Technical Assistance Project FSTAP).

Table 1: Performance against PAF 2004 Indicators

Objective	Action	PAF 2004 Target	Actual Performance	Performance rating
Reinforce the supervision capacity of the Banco de Mozambique	Carry out a forensic audit of BAu (coordinated by BoM for the AG's office)	Start audit	The audit has not yet started. Contract negotiations are ongoing with Lebouf (of RSA) who will have KPMG (of RSA) in their team.	Fair
	Implement IFRS in the financial sector (including harmonization of taxes) ¹²	IFRS strategy presented	Diagnostic studies of 4 banks (BIM, BAu, BSTM and BCI/CF have been completed. A strategy and timetable for transition to IFRS was prepared in March 2005.	Good
Improve financial intermediation including that directed to the micro, small and medium enterprises and family aggregates without access to commercial banks	Strengthen institutional capacity of BoM and other regulatory authorities	Regulations related to the LICSF (Banking Institutions Law) prepared.	Banking regulations were approved and issued (Dec 2004) Microfinance regulations were approved and issued (Dec 2004) 1	Good
		LFL (Law for Bankruptcy) submitted to parliament	LFL was drafted but has not yet been submitted to parliament. [May depend on commercial code]	Poor
	Withdrawal of Government as a shareholder in the banking sector	Withdrawal of participating in BAu initiated.	Withdrawal of participation in BAu completed.	Good
		Strategy for state withdrawal at BIM defined. Strategy to regulate the participation of public companies in the financial sector developed	Strategy is being developed. Preparation of the strategy has not yet begun. In April 2005 the GoM has asked the World Bank for assistance in preparing this strategy.	Fair Poor
Reform of Insurance Sector	Chart of Accounts prepared	Chart of accounts has been prepared and published. Ministerial diploma nr. 113/2004 or 23 June 2004.	Good	

¹² This is interpreted to mean considering the implications on taxes.

Table 2: IMF PRGF 2004 Structural Performance Criteria and Benchmarks (for Financial Sector activities only)

Action	Type	Due Date	Status
Complete a feasibility study on the divestment of the government's participation in BiM	Performance Criteria	Dec 2004	Delayed; Revised date is Sep 2005
Complete the revision of the regulatory framework for microfinance activities	Benchmark	Sep 2004	Done
Developed timetables to move gradually to IFRS and to comply with loan classification and provisioning based on international best practices	Benchmark	Dec 2004	Timetable for transition to IFRS completed in March 2005
Issue regulations of the anti-money laundering law and establish financial investigations unit.	Benchmark	Dec 2004	Regulations issued; FIU not yet established

Table 3: World Bank PRSC 2 Benchmarks (for Financial Sector activities only)

Sector	Benchmark (PRSC 2 – for 2004/2005)	Status
Banking	Financial Institutions Law approved	Done
Banking	Diagnostic reviews completed; Action plans prepared for transition to IFRS	Done
Banking	GoM will divest of shares held in trust for BAu employees	Done
Insurance	Action plan for making insurers IFRS compliant will be implemented	Not begun

Table 4: PAF 2005 Targets and status as at April 2005

Objective	Action	PAF 2005 Target	Status
Strengthen accountability in the banking sector	Carry out a forensic audit of BAu through the AG's office	Finalize audit	Audit is expected to take 6 months. If contract is signed in April/ May, the audit may be completed in 2005.
Improve financial intermediation including that directed to the micro, small and medium enterprises and family aggregates without access to commercial banks	Strengthen institutional capacity of BoM and other regulatory authorities	Approval and issue of LFL legislation. ¹³	The legislation is being drafted. AfDB will provide assistance under FSTAP. Legislation likely to be submitted for approval in 2006.
	Withdrawal of Government as a shareholder in the banking sector	Implementation of BIM strategy. GoM interest brought to point of sale.	Strategy is expected to be developed by September 2005. Implementation may not be completed by December 2005.
Improve insurance and social protection sectors	Improvement of social protection system	Submission of social protection law to parliament	The social protection law being reviewed and is expected to be submitted to parliament during the 4 th quarter of 2005. The regulation for private pension funds will be prepared after this law is approved.
		Beginning of actuarial study of social security system	The actuarial study will begin in 2006. Assistance will be provided by AfDB.

¹³ This was wrongly stated in the PAF 2005 as approval and issue of LICSF regulation.

Table 5: FSTAP Components (indicative)

Component	Implementing Agencies	Funding / TA
Strengthen Banking Sector	Bo M, DNIA, IFB	World Bank, DFID, IMF (MFD)
Strengthen BoM	BoM	World Bank, IMF (MFD)
Public Debt Management	MoF	World Bank, Sweden
Money Markets and Foreign Exchange	BoM	World Bank, IMF(MFD)
Lending Environment (Legal / Judicial)	UTREL, MoF	AfDB
Insurance	IGS, Emose	AfDB
Pensions	IGS, INSS	AfDB
Micro & Rural Finance	MoF, BoM	KfW, GTZ

Table 6: FSWG Composition

Government of Mozambique	International Partners	Civil Society
Joana David (BoM) Otilia Santos (MoF) Domingo Jose (IGS) Isaltina Lucas (MoF) Sarmiento Senda (INSS), Luis Matsinhe (??), Albano Manjate (¿?)	Simon Vanden Broeke (DFID) Ravi Ruparel (World Bank) Lars Ekman (Norway) Anton Johnston (Sweden) Patrick Elmer (Swiss Cooperation) Carsten Sandhop / Karim ould Chih (Germany) Julius Schlotthauer (USAID) H Malate / T Adeniji (AfDB) Francisco Carrerras (EU)	?? (CTA) ?? (Ambancos) Adriano Frey (Caldeira & Associados)

12. WG: Private Sector

(Following discussions with government and civil society representatives)

1. Actions prioritized by the Working Group to be completed in the short term (2005) and with low administrative costs to donors and Administration

Payment scheduling: independent assessment of impact of delays on SMEs with specific recommendations on both monitoring and potential solutions (including VAT refunds). These might include the use of debt as collateral

- **One- Stop- Shop.** *Balcaos Unicos* established in every province by the end of 2005.
- **Simplification of licensing and registration of the Economic Ministries**
immediate implementation of an action plan directed towards significant simplification of the process of licensing and registration corresponding to ministries with direct responsibilities in productive activities (e.g. tourism, transport, fisheries, etc). The simplified processes should be brought in line with i) the simplified legislation of MIC; ii) the ongoing decentralization process being made to the Provincial Governments. The ultimate goal of this recommendation would be to facilitate and stimulate private sector activities by simplifying procedures and reinforcing the implementation process of the *Balcaos Unicos* in the Provinces.
- **Telecommunications:** ensure that regulations encourage competitive structure of the sector such that small and medium size service providers are fully consulted and can effectively participate in the sector.
- **HIV/ AIDS:** explore opportunities for further engagement and activities, possibly through EcoSIDA.'s Road Map.

2. Actions prioritized by the Working Group to be completed in the medium term (2006) and with need of further discussion among donors, government and representatives of the civil society:

Payment scheduling: GoM payments are often overdue, creating cash flow problems for providers, especially SMEs, and costing the GoM millions of USD in late payment charges. This is especially apparent and costly in the Roads sector.

One- Stop- Shops: *Balcaos Unicos* should have full power to perform licensing approvals.

Social Security. The labor law revision should include examination of ways to provide for competitive choices of retirement plans, perhaps along the lines of the Chilean system¹⁴. On social security issues it is important to know about the state of play of the actuarial study of INSS and its future.

¹⁴ The so called "Chilean system" of pension is based in an compulsory individual account where the beneficiary capitalizes its future retirement by contributions shared between the worker and the employer in a mix established by law. The law also establishes the rules by which private administrators of pension funds should operate in market conditions.

Other contingent liabilities: The PSWG encourages the GoM to perform an in depth analysis of its current involvement in different levels of equity and commitment in several companies through “residual holdings”. The analysis should be directed towards defining a strategy for rationalizing its presence in productive activities, (i) avoiding the current contingent liabilities that pose additional costs to the State Budget and (ii) clarifying the strategic reasons for maintaining its presence if necessary. In this regard, the PSWG also strongly recommends that covenants restricting the new owners of privatized assets should be cancelled, so that these firms can redeploy their assets in accordance with market realities.

Government monopolies: the MoF should take charge and review innovative mechanisms for management of public assets, e.g. privatization.

Land: property should be freely marketable. Agricultural lands need clearly established demarcations, a faithful registry, and marketability without bureaucratic involvement. Land should be usable as bank collateral

Environment: assure that ample time is allowed for full vetting of proposed regulations by all stakeholders.

Gender: work with private sector to mainstream gender perspectives into private sector development work

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Overview of performance in correspondence with PAF 2004

Objective	PAF 2004 Action	PAF 2004 indicator	Performance 2004	New Indicator for 2005	proposed for 2006
Creation of a favorable environment for Private sector	Amendment of the Labour Law and Submission to the Assembly of the Republic of the Amended Labour Law.	Published decree 57/03	Fair , revision is ongoing	Completion of broad consultation process	- Law submitted to Assembly - Law revision includes examination of competitive choices of retirement plans (social security)
	Submit to parliament revised Commercial Code	Implementation	Fair , delayed but progressing	Approval of <i>the Commercial Code</i> and full entrance into force	Implementation
	Approve the regulations on the licensing of commercial and industrial activities	Done	Good , regulations have been approved	Regulations also approved for other Economic Ministries (eg: Tourism, Transport, Fisheries, etc)	Facilitate and stimulate private sector activities by simplifying procedures and reinforcing the implementation process of the <i>Balcaos Unicos</i> in the Provinces.
	Approve inspection regulations for commercial and industrial activities	Done	Good , regulations have been approved	Regulations also approved for Economic Ministries (eg: Tourism, Transport, Fisheries etc)	Complete implementation of a transparent, scheduled, non-discretionary, and accountable system whereby all fines are deposited in the Treasury.

Proposed indicators for 2005 and 2006

Not all of these indicators have been mentioned before but have been identified by PSWG as priority and possible to attain by 2005 or 2006 as indicated.

Objectives	Indicator for 2005	Proposed for 2006
Business registration improved	reforms to computerization of Notary registries, and participation of registered lawyers in the notary process achieved	
Improved system of fines and inspection :	Transparent schedule of fines and an abolition of fine sharing	
Effective implementation of One-Stop- Shops	Balcaos Unicos implemented in all provinces	Balcaos Unicos include full executive powers for approvals
Simplification of licensing and registration for Econ. Min	New regulations approved for Economic Ministries (e.g.: Tourism, Transport, Fisheries, etc)	
Improved regulations of Telecommunications sector:	Full consultation of SME service providers for revised regulation	New regulations enforced
Mainstreaming of HIV in private sector	Explore opportunities for further activities through EcoSIDA	
Reduce GOM contingent liabilities:	Perform in depth analysis of involvement in equity and commitment in several companies through "residual holdings".	Implement recommendations of the independent in depth analysis.
Effective implementation of Government privatisation strategies :	MoF to take charge of privatisation processes	Two major privatisation processes completed
On time Government payments	Independent assessment of GoM payment delays on SMEs with specific recommendations	Implement recommendations of independent assessment
Identify constraints of land law on private sector growth	PSIA undertaken on land reform	PSIA recommendations implemented in

13. WG: Agriculture

Summary

In general terms the evaluation of the performance on the PAF quantitative indicators is satisfactory. However, the headway made on the institutional questions in 2004 was not satisfactory.

In the agriculture sector, in 2004 one continued to record notable growth in agricultural production—close to 9.0% in volume. The performance index noted exceeds the target set in the 2001-2005 PARPA by around 1.1%. Various constraints continue to affect agricultural production in general, particularly infestations and diseases, the deterioration of the international sugar and cotton markets, and vulnerability to the climatic conditions the effects of which were reflected in reductions in output registered in the cashew nut, copra and sugarcane crops.

The sector's performance on the main PAF indicators (Appendix 1) was: 91% on the target defined for assistance through public extension; 47% on vaccination against black-leg; 94.7% on vaccinations against foot-and-mouth disease, with 78% of the files processed within the time limit of 90 days; 50.5% as against a target of 22% for concessions with approved management plans; and lastly, as to the percentage of undertakings which market food crops with a target of 54%, the indicator has been replaced by the percentage of the grain output which is actually marketed by the formal sector, the achievement for which is 15.4%.

Some advances were recorded in the institutional reform, namely revision of the instruments of organic operation of the sector. The implementation of the reform includes the plan for restructuring of the human resources. In this context, a matrix of indicators was defined in order to monitor the process of MINAG's capacity-building in 2005 (see Appendix 2). However, it is still necessary that concrete goals and tangible objectives be set as well as the preparation, discussion and approval of an action plan showing clearly the stages to be followed in the reform process as a whole, in accordance with the plan approved for 2007 (CIRESPP).

Out of the total amount foreseen for 2004, only 62% of the investment budget was disbursed and the greater part of this amount was in the last few weeks of the year. Disbursement constraints continued to hamper normal implementation of the sector's activities. There is concern in budget execution with: (a) the lack of uniform mechanisms for presentation of the financial execution of the projects the execution of which is done outside of the PROAGRI mechanisms; (b) the information regarding financial execution of the external investment budget at provincial level is not sent on to central level by the DPPFs; (c) the lack of information on MADER's procurement account.

Concerning the cross-cutting issues, the gender strategic plan and ProAgri II environmental assessment are being drawn up. In the area of HIV/AIDS, the results were presented by the consulting firm Verde Azul of the impact of this disease on the MINAG staff.

Performance Indicators 2004

Out of a total of nine indicators evaluated in 2004, including the proxy (see below) only two indicators reached the target foreseen, with the percentage of concessions with an approved management plan (227%) and areas of irrigation systems built and/or rehabilitated with public resources (120%), deserving to be highlighted. The remaining indicators had an index above 85%, with the exception of the cattle and chicken vaccinations which obtained

fulfilment below 50%. The indicators which should be monitored based on the results of the Agricultural Survey Work (TIA), were fed from the data collected through the MINAG information sub-systems (proxy) due to one not having carried out this operation in 2004. Due to updatings undertaken by some sub-sectors, there are some differences in the dimension of the results presented in this document in comparison with those reported in the document produced by MPD/Finance, namely in the percentage of concessions with an approved management plan, areas of irrigation schemes built and/or rehabilitated with public resources and the number of vaccinations of chickens against Newcastle Disease.

Growth in output of 9% noted in the agricultural sector was due to the increase seen in basic food crops (6%) and in export products (10.5%). Within the group of the basic food crops, grains contributed around 10.7%, with the maize crop deserving of highlight and which contributed around 16%, while cassava maintained the growth same as in the previous year, around 4.3%

In the cash crop group, what stood out were cotton (69.9%), tobacco (33.7%) and tea leaf (19.2%). The reductions noted in the cashew nut crop (32.6%) and those of copra (1.3%) and sugarcane (3.4%) resulted respectively from: (a) the incidence of infestations and diseases like helopeltis, oidio and antracnose in the Southern region, cashew tree aging and (b) aging and lethal yellowing of coconut palms; (d) the irregularity of the rains, which provoked a water deficit at crucial points in the growth of the sugar-cane; (e) the occurrence of rains at the beginning and during the crop year, which provoked delays in its start-up in some sugar mills; (f) interruptions of the harvest and degradation of the quality of the cane, and to the powerful attack of the Chilo lizard felt in Mafambisse and Marromeu.

Agricultural Services

Increasing the Coverage of the Agricultural Extension Services

In public agricultural extension, In 2004, assistance to close to 164,000 families was foreseen, with around 150,000 families being assisted, representing a fulfilment rate of 91.4% and a growth of 22.9% in comparison with the year 2003 (122,000 peasants). This number of families assisted includes the involvement of the extension service in vaccination activities against Newcastle disease within the framework of the Unified Extension System (SUE).

In the context of Veterinary Services, various activities were carried out aiming at benefiting the peasants, with one highlighting vaccination of cattle. Vaccination against anthrax was foreseen for 800,000 cattle, with 339,992 vaccinations being carried out as against 488,765 vaccinations in 2003. This level of fulfilment corresponds to 42.4% fulfilment of the target and a decrease of 30.4% in comparison to the year 2003. The forecast for vaccination against black-leg was 300,000 cattle vaccinated. Fulfilment in 2004 was 140,387 cattle, equivalent to a performance of 46.8% and a decrease of 23% in comparison to 2003 (182,948 cattle vaccinated). The late arrival of the financial resources and the lack of vaccines in the country significantly affected the execution of the veterinary services activities. The forecast for vaccination against foot-and-mouth disease was of 400,000, with 378,743 vaccinations being carried out, corresponding to 94.8% fulfilment and growth of 19% from 2003 (284,806).

The result achieved in vaccination against Newcastle corresponds to a joint activity involving the Extension and Livestock services, in which one obtained a coverage of 1,147,061 vaccinations, equivalent to 45.8% fulfilment of the goal (2,500,000). In comparison to the year 2003 (737,664) there was growth of 55%.

Stimulate the Market Mechanism

Percentage of farms which market food and cash crops: The target set for 2004 for the percentage of farms marketing food and cash crops is 54%. Meanwhile this indicator was replaced by the percentage of the grain output actually marketed by the formal sector. The latter reached 15.4% in 2004. This percentage includes only those quantities marketed within the formal sector. Constraints still persist in marketing, related to the low prices offered to the peasants, the access routes, difficult removal of the products to market, and not very competitive markets.

Promote the Use of Irrigation Techniques

The target set out for the area of irrigation schemes built and/or rehabilitated with public resources in 2004 was 1600 ha. 1,915 ha were rehabilitated throughout the country, corresponding to a 120% fulfilment of the target. In comparison to the year 2003 (900 ha) there was growth of 113%. This fulfilment resulted from an increase in the capacity of the Provincial Directorates in terms of identification and implementation of small irrigation schemes.

Natural Resource Management

Access to Land

Number of files processed within the time limit of 90 days: As a result of the introduction of simplified procedures for authorisation of the DUAT, throughout the whole country in 2004 a total of 2,709 files for application for authorisation of the DUAT for the various objectives were submitted, of which 2117 cases received a positive response. These data show 78% fulfilment in terms of files processed within the time limit of 90 days, taking into account the cases approved in 2004. There was 85% fulfilment in relation to the target (2,500). Unlike in 2003, in the whole country a total of 2,534 cases of application for authorisation for use and benefit for various ends were submitted and processed. These data reveal a 77.8% fulfilment in terms of files processed within the 90-day time limit, equivalent to only 1973 cases approved.

Stimulate the sustainable commercial management of natural resources via management plans

Concessions with Approved Management Plans: The target set for the year 2004 was 22%, with one achieving 50.5%, thus surpassing the target by 227%. That which was carried out in 2004 surpassed by 62.9% in comparison to that achieved in 2003 (31%), due principally to:

- Dissemination and awareness-raising on the sectoral legislation and simplification of procedures for the acquisition of forest concessions.
- Reinforcement of rigorous compliance with the law concerning the operationalisation of the forest concessions based on approved management plans.

PAF Indicators for 2005

The carrying out of the 2005 TIA is in preparation, this being an operation which will allow one to monitor some of the indicators that are found in the matrix. Four new indicators were introduced that will come to be monitored in 2005, these being:

- Percentage of agricultural operations which have adopted at least one new technology during the last twelve months (28%).
- Percentage of agricultural and livestock-raising operations which have vaccinated livestock (70%).
- % of cases received and processed within the 90-day time limit (90%).
- Irrigation scheme areas built and/or rehabilitated with public resources (2,900 ha).

Capacity-building

Institutional Reform

Some advances were recorded in the institutional reform, namely revision of the Ministry's Organic Statute, creation of the IIAM, revision of Cenacarta's Organic Statute, discussion of the preliminary proposal for revision of the Organic Statute of the Fund for Agricultural Development, and a study on the functions and structure of the Centre for Promotion of Agriculture. In the human resource area, approval by December is foreseen of the staff complement for 2005, with the program of retirement and limitation of new hires under way. The beginning of the bringing into the staff complement of the staff outside of it is foreseen for 2006. In relation to Procurement, one should highlight the significant advances already achieved. However, limitations still exist in compliance with the procedures of the manual and its operationalisation, duties and responsibilities, as well as information systems. In order to improve the process of institutional reform and procurement the action plans are being drawn up, the implementation of which should be decided and accompanied by MINAG and the Cooperation Partners. In this context, a matrix of indicators for 2005 was defined which allows for monitoring the process of capacity-building (institutional development). This matrix takes in indicators and targets in the areas of MIS, human resources and institutional reform, financial management, the planning process and cross-cutting issues.

Management Information System

Despite delays seen in 2004, the engagement and commitment of the Ministry are also notable in the design and implementation of a Management Information System, permitting decision-making in the future on an informed basis, with discussion foreseen for the month of April and subsequent commencement of its implementation in accordance with the action plan to be agreed.

Budget Execution

The budget execution reported in the State Budget Execution Report (REOE) is 51.7% for investment and 95% for operations. However the execution reported in the FMR (PROAGRI) is 62% for investment (internal and external) and 66% for operations.

- In the case of the operations budget, the difference is mainly due to the fact of the National Directorate of Public Accounts (DNCP) including the fisheries sector and the GPZ (Zambezi Valley Promotion Office), which may have affected the amounts in the operations budget execution.
- As regards the investment budget, the difference is due, in addition to the inclusion of fisheries and the GPZ, to the projects which are written into MADER's budget, execution of which isn't captured by PROAGRI nor by the DNCP.

MINAG is monitoring the budget execution of these projects starting in 2005, for which reason it is hoped to have consolidated information for the entire MINAG budget.

As regards PROAGRI, the amount of the investment expenditures executed is 473 million contos according to the REOE, while the amount determined by the FMR is 612 million contos. In addition to that, REOE reports that only 77 million contos have been cleared and 397 million contos remain to be cleared.

This is due principally to two factors:

1. The amounts of outside investment made available to the provinces (312 million contos) are not taken into account by the DPPFs as in the provincial ambit but rather as being central-level. The DPAs report to the DPPFs on the execution of these amounts, but the DPPFs don't transmit this information to the National Directorate of Public Accounts, in spite of there existing a joint order attached to the PROAGRI Memorandum of Understanding.
2. In 2003 a sub-account was opened within the FOREX account for procurement at central level, under MADER's management. The amount of the execution linked to procurement (114 million contos) is not transmitted to the MPF, although the DNT knows exactly how much comes into this account and for what purpose (the FOREX account is controlled by the MPF).

In order to correct this situation MINAG has just sent information for 2004 which includes information on the budget execution of the provinces as well as of the procurement account (overall interim balance sheet for 2004). This will permit improvement in the data contained in the REOE. Starting in 2005 it is foreseen to assign the procurement amount to the execution of each component, in such a way that this information gets reported automatically.

Proagri II

In the context of the formulation of the implementation mechanisms, a proposal was presented in relation to the planning mechanisms and flow of funds at central and local levels, in which are included the new agricultural activities. Up till the present time one is still working on improving the proposal.

The PROAGRI technical meeting will take up various matters, including the cross-cutting issues.

Cross-cutting Issues

Gender

Preparation begun of the agricultural sector gender strategy which contains the sector strategic plan as well as the action plan which will be implemented in the second phase of PROAGRI.

HIV/AIDS

The study presented by the consulting firm Verde Azul in MINAG, will permit the institution to define the internal procedures to be followed in relation to this disease. The study shows clearly the impact which this disease has on the MINAG staff, as well as the costs which may result in its treatment and prevention.

Environment

As regards environmental issues, ProAgri II's environmental assessment is being drawn up, to be disseminated in the provinces in the second half of 2005 and implemented starting in 2006. The action plan will be discussed at the PROAGRI technical meeting (April 2005).

General Findings

- *Need for harmonisation in the methodology for calculation of the sector's growth rates, between MPD and MINAG.*
- *MINAG ought to take in all of the off-budget investments and projects in order to have an overall picture, and in line with that presented by the MPD, a job which is already under way.*
- *Need to review the target (90%) for execution of the lands component (percentage of files received and processed within the 90-day time limit), given that the 2004 fulfilment falls well short of this goal (78%).*
- *Need to undertake a review of the targets for the performance indicator in forests, given that the level achieved in 2004 surpassed the target set for 2007.*
- *Given the failure to carry out the TIA in 2004, it wasn't possible to obtain the data disaggregated by gender.*
- *Need for one to replace the indicator on the markets (percentage of grains marketed by the formal sector), given that the growth seen year on year is rather insignificant.*
- *Need for one to include food security aspects in the PES balances.*

14. WG: HIV/AIDS

1.0. Executive Summary

Progress: *There was significant progress in 2004 in the application of the “Three Ones” principles – one national strategic plan is now in place; the capacity of CNCS to act as the one coordinating mechanism continues to be strengthened; and work towards the construction of one national monitoring and evaluation (M&E) system continues to evolve.*

Concerns: *High-level political leadership is crucial in the struggle against HIV/AIDS – yet the CNCS Board (which should be spearheading this effort) did not meet in 2004. HIV/AIDS is inextricably linked to gender inequality and poverty, and must be tackled through a coordinated multi-sectoral response, yet few sectors have developed HIV/AIDS strategic plans and fewer still have budgeted resources for implementation. HIV/AIDS initiatives are not yet on-plan and on-procedures (and therefore on-budget and on-treasury) – this is essential to ensure a coordinated, harmonized response.*

Expectations and demands on CNCS are extremely high. On-going capacity and institutional development is required to enable CNCS to effectively and strategically coordinate, lead and monitor the national, as well as provincial and district-level responses. There have been significant delays in the development of a new workable Grant Management System (GMS). The number of orphans and vulnerable children has created a crisis as household and community coping mechanisms are stretched beyond their limits. This, together with the disproportionate number of young women infected, reveals the need for appropriate and targeted HIV/AIDS programming.

Performance against PAF Indicators: *Overall performance against the three HIV/AIDS indicators in 2004 was satisfactory.*

PES/OE/PARPA II: *HIV/AIDS was addressed fairly comprehensively in the PES 2005, particularly in the impact analysis section which considered the broader social, medical and macroeconomic implications. Nevertheless, the critical need to fight HIV/AIDS through a crosscutting, multi-sectoral approach was not well reflected throughout the rest of the document. Although HIV/AIDS is mentioned, it is simply a list of a few planned activities, rather than a visible set of priority actions across all government sectors. The dedicated line item for HIV/AIDS in the budget (namely, OE funding to CNCS) is very small and does not reflect a realistic representation of the funding “imbedded” in other sectors e.g. Education, Health, Women and Social Action, etc. However, until SISTAFE rolls out across all sectors with its program classifiers in place, it will be difficult to obtain a more accurate picture of multi-sectoral expenditure on HIV/AIDS. A more significant OE contribution to CNCS would signal commitment to the Conselho as the national coordinating mechanism, together with OE contributions to all sectors to reflect the inclusion of HIV/AIDS activities in their plans and budgets.*

Key Recommendations for 2005: *Political leadership at all levels (national, provincial, district and community) and across all sectors must be strengthened. A coordinated, multi-sectoral response must be firmly established. CNCS needs to continue to focus on its ‘core business’ of coordinating, analysing, leading and monitoring the national response. Partners also need to coordinate, harmonise and simplify in an effort to reduce transactions costs for government counterparts.*

Broader discussions are needed to define who has priority access to ARV treatment. An indicator capturing the number of people living with HIV/AIDS on ARV treatment should be reintroduced into the PAF/PES Framework, as part of the Health matrix.

Civil society engagement at all stages of determining and implementing policies and strategies is key to the achievement of PEN II and PEN Saude targets. It is critical that appropriate, specific and targeted programming be developed to address the inextricable link between gender inequality and HIV/AIDS.

An analysis of HIV/AIDS expenditure should be undertaken to map and assess how and where HIV/AIDS funding is being channeled, and to what effect.

In the context of the implementation plan for PEN II, the current HIV/AIDS indicators will be revisited at the time of the Mid-Year review, taking into account revised targets and confirmation (or otherwise) of readily available, reliable data.

2.0 HIV/AIDS: Retrospective Analysis of Performance in 2004

2.1 Progress

Progress throughout 2004 was consistent and there were significant improvements from previous years. In particular:

- *The strategic component of the new National HIV/AIDS Strategic Plan 2005-09 (PEN II) was finalized and approved by the Council of Ministers in November 2004 (operational component is imminent). The PEN II M&E framework reduced the number of indicators from 150 to 26 – making it much more manageable.*
- *CNCS continued to build its capacity and to endeavor to focus on its core business of coordinating the multi-sectoral response.*
- *Provincial Governors became increasingly involved in the process to coordinate the multi-sectoral response. Plans were put in place to consolidate their role in 2005.*
- *The HIV/AIDS Partners Forum was firmly entrenched and relationships between CNCS and partners continued to strengthen.*
- *1,284 organizations were involved in HIV/AIDS activities nation wide.*
- *CNCS significantly scaled up (from 2 in 2003 to 595 in 2004) sub-grants to organizations.*
- *Preliminary steps were taken towards harmonizing and simplifying mechanisms and procedures as CNCS continued to strive to develop a simplified Grant Management System (GMS).*

2.2 Concerns

- *High-level political leadership is crucial in the struggle against HIV/AIDS – yet the CNCS Board (which should be spearheading this effort) did not meet in 2004.*
- *HIV/AIDS is inextricably linked to gender inequality and poverty, and must be tackled through a coordinated multi-sectoral response – yet few sectors have developed HIV/AIDS strategic plans and fewer still have dedicated financial resources for implementation.*
- *Although the health and education sectors have dedicated limited amounts of state resources to HIV/AIDS, OE financing for HIV/AIDS across all sectors remains negligible.*
- *According to the 2004 Balance de PES, only 0.4% of GoM public expenditure was allocated to HIV/AIDS. This amount includes the Government contribution of \$5 million (execution only \$3.5 million) to CNCS, as well as CNCS Common Fund and MAP (World Bank) commitments.*
- *All HIV/AIDS initiatives should be on-plan and on-procedures, and if/as possible on budget and on-treasury in order to ensure a coordinated, harmonized response.*
- *The development of PEN II was considerably delayed (and the operational component has yet to be released) – raising concerns about the momentum of the National Response. The absence of a comprehensive strategic plan to provide direction and guidance, contributed to limited public sector response.*

- *Expectations and demands on CNCS are extremely high. On-going capacity and institutional development support is required to enable CNCS to effectively and strategically coordinate, lead and monitor the national, as well as provincial and district-level responses.*
- *Lack of substantive efforts to mobilize and build the capacity of rural communities has hindered the development of an appropriate localized response.*
- *Although sero-prevalence rates are alarming across all groups, 2004 projected data for young women is particularly shocking – 21% of women between the ages of 20 and 24 (vs. 7% of men in the same age group) are positive. The development of appropriate, specific and targeted programming is essential. This must include efforts to: address the gender inequalities and social norms that make women, and particularly girls, more susceptible; improve female school enrolment and completion rates at all levels, particularly EP1 and EP2; address gender based violence; protect property and inheritance rights; break down barriers to ensure equal access to care and treatment; and support those providing care to the sick and orphaned.*
- *The pandemic has created an orphan crisis. By the end of 2004, there were 273,229 AIDS orphans (17% of the total number of orphans). This number is expected to increase to 626,000 by 2010. The coping mechanisms of communities and households are stretched beyond their limit. Orphans are increasingly vulnerable and less likely to access social services.*
- *Broader discussion is needed to define who has priority access to treatment in order to build consensus and ensure equity and transparency.*
- *Less than one percent of children in need of treatment in 2004 had access to ARVs.*
- *There have been significant delays in the development of a new workable Grant Management System (GMS), in spite of the fact that there is wide-spread consensus that a simplified system is crucial as (i) current parameters and procedures are cumbersome, complex and uncoordinated and (ii) CNCS (under significant pressure from partners) spends an inordinate amount of time administering the current system (taking away from its core business).*

2.3 State Budget

The OE commitment to CNCS for 2004 was only \$5 million – and, due to delayed disbursements from MPF, execution only \$3.5 million. The 2005 OE commitment remains only \$5 million. It is hoped that timely disbursements will facilitate full utilization of said funds.

Information is not gathered on OE contributions to HIV/AIDS across most sectors. As sectors begin to develop costed strategic plans (critical to the multi-sectoral response), it will be essential that OE financing is made available to deal with this national emergency.

2.4 Balanco do PES 2004

Although the 2004 PES stressed the need for the National Response to adopt a multisectoral approach, the PES (and the Balanco de PES) addressed HIV/AIDS as a health issue. Moreover, the HIV/AIDS summary in the health section was essentially a list of a few activities and targets as set out in the MISAU PEN Saude.

2.5 Performance against PAF/PES Indicators:

Overall performance against the three HIV/AIDS indicators in 2004 was satisfactory.

7,414¹⁵ people living with HIV/AIDS were on antiretroviral treatment by the end of 2004 – surpassing the PAF/PES target and meeting 94% of the MISAU PEN Saude target. Note, however, that this figure represents less than 5% of the 2004 need.

¹⁵ The Balanco de PES 2004 reports 8,000 people on treatment.

3,177 women and 3,334 neonates, for a total of 6,511¹⁶, received prophylaxis for the prevention of mother to child transmission (PMTCT) in 2004 – meeting 81% of the PAF/PES target. Note, however, that this figure represents only 2.9% of the estimated mothers infected in 2004. It is, nevertheless, encouraging that services are now available in all but two provinces, and that the number of units offering PMTCT increased from 8 in 2002, to 17 in 2003, and 31 in 2004.

14.9%¹⁷ national prevalence, based on projected data, was “achieved” in 2004 – meeting the 2004 PAF/PES indicator. Note that this target has been removed as it is a very unsatisfactory measure of performance given (a) natural epidemiological progression, (b) prevalence does not accurately measure other facets of progression, nor the response to the epidemic and (c) as ARV roll-out scales up, and more people live longer, prevalence rates will increase. Note that the action deemed necessary for the achievement of this target is the “commencement of implementation of PEN II”. Although the strategic component of PEN II was approved in late 2004, the implementation of this plan has yet to commence in earnest. We cannot, therefore, indicate that this action was achieved. Nevertheless, the target was “achieved”.

3.0 HIV/AIDS Forward Looking 2005 Summary

3.1 PES / OE / PARPA / POA

HIV/AIDS was addressed fairly comprehensively as a crosscutting issue in the PES 2005, including a good analysis and due consideration of the broader social, medical and macroeconomic implications. This was a key recommendation of the 2004 Joint and Mid-Year Reviews. The PAF HIV/AIDS indicators are elucidated in the PES, and the two processes are coherent and consistent.

The dedicated line item for HIV/AIDS in the budget (namely, OE funding to CNCS) is very small and does not reflect a realistic representation of the funding “imbedded” in other sectors e.g. Education, Health, Women and Social Action, etc. However, until SISTAFE rolls out across all sectors with its program classifiers in place, it will be difficult to obtain a more accurate picture of multi-sectoral expenditure on HIV/AIDS. A more significant OE contribution to CNCS would signal commitment to the Conselo as the national coordinating mechanism, together with OE contributions to all sectors to reflect the inclusion of HIV/AIDS activities in their plans and budgets. Moreover, timely OE disbursements are essential if CNCS is to count on OE funding for recurrent costs.

In spite of a good impact analysis, the critical need to fight HIV/AIDS through a crosscutting, multi-sectoral approach is not well reflected in the 2005 PES. Where HIV/AIDS is mentioned, it is simply a list of a few planned activities, rather than a visible set of priority actions across all government sectors.

Significant and increasing earmarked resources are available for HIV/AIDS activities in Mozambique. It is essential that these resources, and associated programming interventions, are coordinated and their impact on the overall resource envelope understood.

Given the weight of evidence of the inverse correlation between HIV/AIDS and economic growth, and the direct correlation with poverty, it is essential that PARPA II address HIV/AIDS (including its gender dimensions) as a crosscutting issue. In order to ensure adherence to the principles and rationale behind the three one’s, it is also essential that PARPA II and PEN II are coherent.

As the implementation plan of the PEN II has yet to be finalized, clear targets have yet to be elucidated for its key indicators. It had been hoped that this plan would be available by the end of 2004. However, it is expected to be finalized in the coming months. In this context, the current

¹⁶ The Balanco de PES 2004 reports 4,000 women and neonates receiving prophylaxis for PMTCT.

¹⁷ The Balanco de PES 2004 reports 13.6% prevalence based on 2002 epidemiological data collected in 36 sentinel sites.

HIV/AIDS indicators will be revisited at the time of the Mid-Year review, taking into account revised targets and confirmation (or otherwise) of readily available, reliable data. Note, however, based on preliminary discussions, that we may recommend replacing the OVC indicator with an indicator that measures government commitment (e.g. measured by OE financing - budgeted and executed) to the national HIV/AIDS response.

4.0 Key recommendations and issues for consideration

- **Build on political leadership at all levels** (national, provincial, district and community) **and across all sectors**. Although some progress has been made, the national response is still not commensurate with the scale of the epidemic. It is critical that this gap is closed and that a coordinated, costed, financed, multi-sectoral response across the entire public sector is mounted based on PEN II and PARPA II.
- **CNCS must concentrate on its 'core business'**. CNCS must focus its attention on coordinating, leading, monitoring and analyzing the national response. In order to enable it do so, it must develop a credible plan and time-line for establishing an effective, simplified grant management system. It must also continue to build its own capacity, as well as that of the public sector and of civil society interlocutors.
- **Partners must coordinate, harmonise and simplify**. Given ever increasing demands and limited capacity, partners must improve efforts to reduce transactions costs for government counterparts by, among other things, increasingly using common mechanisms and procedures, and aligning dialogue and reporting requirements with government systems.
- **Civil society must be involved**. Civil society engagement at all stages of determining and implementing policies and strategies are key to the achievement of PEN II and PEN Saude targets.
- **Gender dimensions must be addressed**. It is critical that appropriate, targeted, multi-faceted programming be developed to address the inextricable link between gender inequality and HIV/AIDS.
- **Broader discussion is needed to define who has priority access to treatment** in order to build consensus and ensure equity and transparency.
- **An ARV indicator should be reintroduced in the PAF/PES Framework**. An indicator capturing the number of people living with HIV/AIDS on ARV treatment should be reintroduced into the PAF/PES Framework. This was removed from the 2005 matrix after discussion with the Health Working Group, as it is their intention to take up this indicator in the 2006 matrix.
- **Analysis of HIV/AIDS expenditure**. As (i) a significant amount of funding is "imbedded" in sectors, (ii) many civil society organizations are funded directly, and (iii) many public sector initiatives are off-budget, a public expenditure review should be undertaken to map and assess how and where HIV/AIDS funding is being channeled, and to what effect. It will also be important to understand how "earmarked" HIV/AIDS resources are impacting the resource envelope and altering government spending patterns.
- **Review of Indicators**. In the context of the implementation plan for PEN II, the current HIV/AIDS indicators will be revisited at the time of the Mid-Year review, taking into account revised targets and confirmation (or otherwise) of readily available, reliable data.

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15. WG: Education

Ministry of Education and Culture	Cooperating Partners
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1. Introduction

An analysis of the progress in the Education Sector for the period covering the calendar year 2004 was done at the RAR6, with the participation of MEC and its partners. Documents for analysis included the "Balanço do PES", Budget Execution Report and the PES/PAF matrix from April 2004.

The educational indicators from the PES/PAF matrix were achieved, despite some constraints. Significant regional and gender disparities continue to exist. It was not possible to analyze the completion rate indicator because the 2004 exam results will not be available until May.

Significant progress was registered in Primary Education. The Government abolished the payment of compulsory fees that were being made in primary schools. The implementation of the New Curriculum for Basic Education and literacy and non-formal education, as well as the HIV/AIDS Strategy constituted areas of progress.

Important changes were seen at the post secondary education level. The revision of the Secondary School curriculum is in process with a view to transforming the curriculum in order to address concerns with improvement in quality and relevance of this sub-sector, as well as the changes in Primary Education. A reform of Technical-Professional Education is also in progress with the participation of the private sector and both national and international partners.

Nevertheless, MEC still faces serious challenges. The ESSP II has not been finalized as foreseen in the PAF, as a result of some weaknesses in the planning capacity at MEC.

The difficulties observed in the area of financial management led to low budget execution, hindered the disbursements of FASE funds and caused delays in salary payments for teachers and subsidies for literacy trainers, thereby compromising MEC's programmes.

Teacher training, including in-service training, and distribution of text books still do not respond to the needs in the sector. Similarly, the area of gender registered weak progress and continues to be a concern. HIV/AIDS continues to be a great challenge.

The following points highlight the main recommendations from the analysis:

- Finalization of the ESSP II and elaboration of the implementation plan including the financial plan and the implementation manual;
- Creation of conditions for the effective implementation of SISTAFE;
- Reinforcement of internal financing within the Education Sector;

- Implementation of the policies for Teacher Training, Technical and Professional Education and School Construction;
- Implementation of actions to accelerate progress in the area of gender, prioritizing those districts with the greatest disparities or gender gap;
- Improvement in performance of cooperating partners with regards to their commitments and ways of working

2. Evaluation of Progress in the Sector in 2004

2.1. Evaluation of the PAF Indicators in 2004

The net rate of enrolment in EP1 reached 75.6% (73.2% for girls), against 72% (69% for girls) of the planned targets in 2004. The completion rate will only be analyzed in May because the exam results are not yet available. In the meantime, it is foreseen that MEC will achieve the targets as the measures requiring change of a pedagogical nature have been taken.

2.2. Evaluation of the Global Achievement in the Sector

2.2.1. Progress

In general, the overarching objectives of the sector were achieved, despite some constraints. Throughout 2004, there was an intensive process of consultation, both internally and with partners of the ex-MINED, regarding the policies of the ESSP II, which resulted in the elaboration of an improved version of the Plan. Despite the progress that was achieved, the ESSP II was not finalized in the agreed timeframes due to the political changes in the country, and the delay in reaching consensus on policies and key strategies.

The Government of Mozambique took an important step to achieve Education For All, when it abolished the fees for School Social Action¹⁸, charged by Primary Schools.

The new curriculum for Basic Education was introduced, in accordance with the plan, in 1st, 3rd, and 6th grades in 2004. For this to work, the MEC trained teachers and initiated the implementation of the “CRESCER” programme which at this moment covers about 30% of the teachers.

The new literacy curriculum is in the process of implementation, as is the literacy programme via radio. The HIV/AIDS programme was partially completed.

The 3rd phase of the Direct Support to Schools programme¹⁹ (ADE) which covers all the Lower Primary Schools and Complete Schools finished successfully, having been positively evaluated by schools, communities, MEC and partners. The 4th phase of the programme is

¹⁸ School Social Action (Acção Social Escolar) is a fee collected from families during school registration.

¹⁹ Direct Support to Schools – is a programme created by ex-MINED which annually allocates funds to schools in sums varying from US\$200 to US\$3,000 per school depending on the number of students.

in preparation and will be launched shortly. It will cover all the Lower and Higher Primary Schools and Complete Schools throughout the country.

The transformation of the General Secondary School curriculum was started. The ex-MINED proceeded with the implementation of the pilot programme of Secondary School through distance education.

The Integrated Programme of Technical-Professional Education achieved marked progress in reforming Technical-Professional Education, with the involvement of the private sector and national and international partners, having culminated in the creation of COREP (Commission for the Reform of Professional Education).

2.2.2. Challenges

The strategies for Gender, Low Cost Construction, and Special Education were elaborated but have not yet been approved. Consequently, the sector cannot evolve in a systematic, sustainable manner.

The process of school mapping did not register significant progress for lack of human and financial resources, which created obstacles in the planning of activities.

The late arrival of text books, accentuated by insufficient quantities in the schools, continues to be a great impediment to the fulfillment of teaching programmes, making student learning difficult.

Teacher training curriculums have not yet been revised to take into account relevant aspects of the New Curriculum. As a result, training materials were not elaborated. The training sessions for teachers proved to be insufficient and unresponsive to the needs of the system. This aspect relates particularly to the teachers of the new subjects (English, Crafts, and Musical Education), as well as to the implementation of the local curriculum. The Teacher Training Institutions did not have appropriate teaching materials, including the books for the New Curriculum.

Pedagogical supervision is controlled at the central level, which makes the follow-up in the field more difficult. Therefore, it is necessary to decentralize and strengthen the system of pedagogical supervision in the provinces, districts and ZIPs (Zones of Pedagogical Influence), and School Councils in order to efficiently control and support the processes of teaching and learning.

The delays in the payment of literacy trainers' subsidies and teachers' salaries which are still being registered, are demotivating for the teaching corps and weaken professional ethics, both situations which need to be corrected.

The pilot phase of the low cost construction programme was not started as forecast in 2004, which compromises the goals of Education for All.

2.3. Analysis of Budget Execution for 2004

The Education Sector received 21.2% of the State Budget, as forecast. Of this, 53.3% went to Basic Education. By the end of 2004, budget execution was 75%.

The current budget registered a level of execution of 79.3% in accordance with the PES. The level of fulfillment of the salary expenses was 86.9% and for goods and services 76.4%, with literacy and adult education and teacher training being the areas most affected. The level of execution for the investment budget was 89% for internal funds and 54% for external funds.

In the salary and other expenses for staff component, the expenses, in some provinces, were more than what was programmed and allocated, owing to the realization of unforeseen expenses such as the payment of second shifts, salary adjustments, end of the year carryover of certain expenses, among other subsidies.

Although the previous review recommended that the two ex-Ministries (MPF and MINED) should analyze this situation, to date the underlying causes for chronic low financial execution are unknown. There is a discrepancy between the limits and budget execution in the ex-MPF and ex-MINED reports.

The FASE budget execution in 2004 was 30.2%, caused by deficiencies in financial management and reporting in 2003, which caused the Cooperating Partners (CPs) to suspend the allocation of funds, until the fourth? trimester in 2004. As a result of this situation, the ex-MINED contracted an advisor to assist in the improvement of financial management and preparation of reports. At the same time, a user-friendly manual for financial management was elaborated, and training for provincial staff of the provincial departments of Administration and Finance was carried out.

A significant portion of the external funds continues not to be written into the budget (off-budget), affecting the planning process. This situation compels the creation of parallel administrative systems, weakening the financial area of MEC even further.

2.4. Cross-Cutting Themes

The ex-MINED and its partners reached the conclusion that the weakness in the financial management system of the Ministry continues to be a factor that impedes the development of the sector. The implementation of SISTAFE, in the scope of the Public Sector Reform could contribute to a significant improvement in financing the sector's activities. Meanwhile, SISTAFE implementation will require great efforts on the part of all of the partners (internal and external) and of MEC in order to reduce the potential constraints that a process of this nature faces.

MEC should integrate appropriately all of the defunct Ministries (MC and MINED) and the area of Higher Education in the ex-MESCT. In the scope of the public sector reform and restructuring of MEC the functional analyses of the defunct ministries should be considered.

The positive experience of Direct Support to Schools showed the great advantages of a decentralized approach within the teaching institutions and permitted lessons to be learnt about how to finance and manage the funds appropriately, permitting these to reach the principal beneficiaries. This methodology might be recommended for other programmes as in the case of the low-cost construction programme.

During 2004 it was clear how important the role of MEC was in the combat of HIV/AIDS. The partners and ex-MINED concluded that the mitigation of HIV/AIDS goes beyond the teaching of prevention methods to students. The strategy should tackle areas of prevention amongst teachers and other education officials, taking into account the need to replace the work force

which will be affected by the pandemic. Thus, the MEC should elaborate clear indicators for aspects linked to HIV/AIDS.

With regard to the indicators for female participation in schools, progress was verified, however, it was slight. In the cases of Secondary Schools and in some provinces, even in Primary Schools, some retreats were verified in relation to these indicators. Considering the goals of PARPA and the Millennium Development Goals, this situation is clearly worrying. The gender and low cost construction strategies should prioritize the districts most affected by the imbalances.

3. Recommendations

MEC should finalize the ESSP II so that it can be approved by July 2005. The implementation plan and manual should be elaborated immediately afterwards, taking into consideration the real situation in the country in terms of human and financial resources. This activity should be completed in time for the ESSP II to be used in the planning process for 2006. The centre for implementing the ESSP II should be the school.

The MEC and its partners should realize all of its actions within the framework and its indicators. To this effect, the joint implementing mechanisms, including the monitoring and supervision system should be revised and revitalized as soon as possible, to respond to the demands of the Plan. In parallel, the coordination between the State institutions related to the implementation of the ESSP II should be improved.

To ensure the complete and effective execution of the ESSP II, the Ministry should concentrate its' efforts on the improvement of institutional capacity, prioritizing financial management and management of human resources. These actions should envision resolution of, among others, salary delays, delays in the acquisition and distribution of text books and the creation of a system for financing the low cost construction programme. Elaboration of the School Mapping should be accelerated in order to strengthen the planning capacity of MEC.

The MEC should prepare for the implementation of SISTAFE in order to avoid possible constraints arising from this change process. In parallel, the MEC should use the implementation of SISTAFE and other instruments, such as the PETS20, to analyze the funding flows in order to evaluate their impact on the sector's activities.

The CRESCER, Direct Support to Schools and Low Cost Construction programmes should be incorporated into the annual planning and budgeting of MEC beginning in 2006.

Teacher Training and the area of the Construction should accelerate the implementation of the policy lines already defined in the Plan.

The implementation programmes for the New Curriculum for Basic Education and Direct Support to Schools should be duly accompanied in the field. Thus, it will be necessary to create a decentralized system of pedagogical supervision in order to control and efficiently support the processes of teaching and learning.

²⁰ Public Expenditure Tracking Survey

The MEC should develop actions to accelerate progress in the area of gender, prioritizing the districts with greatest disparities, in order to ensure that, by 2009, the equilibrium between the sexes will be ensured, at least in lower Primary School.

The rights to education for children with special needs should also be adequately addressed.

The various measures to improve the quality in Primary Education that were introduced in the past few years have resulted in an increase in the number of graduates at this level which will increase the pressure on Post-Primary Education. In this context, the MEC should accelerate the reform of Secondary Education and Technical-Professional Education including Higher Education, taking into consideration the country's priorities in the development context.

The partners should work to ensure that, by the end of May each year, they present their financial commitments to MEC in order to permit a better planning of the State Budget. Exceptionally, this year 2005 the information must be sent to MEC by July. They should also ensure that the forecast funds are disbursed on time. Besides this, in the context of ESSP II and the implementation of SISTAFE, all of the partners should review their commitments and ways of working in order to accelerate the process of harmonisation and aligning procedures.

To guarantee the targets established in the ESSP II the financing efforts of the Government should continue to increase in order to finance the essential activities in the sector.

Considering the possible negative impacts on school's available resources that the new education sector policy giving free Primary Education might have on the schools, the MEC and its cooperating partners should develop a strategy for ensuring and sustaining the financing and adequate functioning of the schools.

Maputo, 16 de Abril 2005

16. WG: Water sector

1. Short executive summary (for the aide memoir)

In **water and sanitation**, the PES/PAF indicator for access to safe water is for 41% coverage and the sector achieved 39.8% in 2004, implying an overall satisfactory performance. Sanitation coverage figures for rural and urban areas are based on various surveys but these do not allow the monitoring of the indicator on a yearly basis. The government is still facing challenges in the improvement of sanitation services. First steps in improving the monitoring system (for which DNA is responsible) were made, with some provinces and cities having updated sector databases. Budget execution figures are still not finalized as the budget execution report does not coincide with either DNA or DPOPH financial figures and final figures will be available in the 'Conta Geral do Estado'. Internal investment spending in the sector has improved to 55.5% (approximately \$7 million out of \$12 million), but is still low as a result of Treasury difficulties. Execution of the sector's external component of the investment budget, however, is alarmingly low at 22.8% due to slow disbursement of the funds. 70% of the provinces (Tete, Sofala, Maputo, Gaza, Nampula, Inhambane and Niassa) have reported investment execution rates of at least 70% and some report on-time disbursements from MF, while others report execution rates below 60% due to later disbursement from MF. Progress on the debt load reduction has been made and one third of the total amount has been reduced. Progress has been registered in International River management, in the elaboration of National Water Resources Strategy and in revision of the National Water Policy and Water Act.

2. Assessment of performance for 2004

PES/PAF indicators

Water coverage figures in DNA's 2004 PES were updated during the joint review with the inputs of the provinces.

The major comments regarding water coverage are:

- The definition of urban and rural. Until 2003, the water sector considered urban to include only the 13 major cities. Starting in 2004, DNA defines urban as being the 19 major cities. The definition of urban used by INE is 23 cities and 68 secondary towns. DNA will discuss with INE to agree on the appropriate definition for the water sector. The change of definition will induce some differences in the coverage figures for both rural and urban, but the overall coverage figure should not be affected.
- Two elements influence the population figure, and hence coverage level for rural areas: (1) the definition of urban (see above) and (2) New population projections taking into account the impact of AIDS-related deaths.
- Rural water supply coverage is currently calculated using five hundred persons per water point as an average envisaged in the National Water Policy. Support is required from cooperating partners including NGOs in order to allow the DPOPH and DNA to validate this figure.
- Project baseline studies in Inhambane, Gaza and Manica provinces has provided updated information on operational and non-operational water points, and the number of persons using each water point. This information needs to be verified and eventually integrated into common-format provincial databases.

- Urban water supply information was provided for the 19 major towns, which reflects the total population of 3.9 million reported by DNA, which is different from the figure provided by INE.
- The majority of small piped systems are not operational due to a high level of obsolescence and lack of investment for their rehabilitation. Priority should be given to these infrastructures in order to improve water supply in the small towns.
- Improved data collection and reporting is urgently needed, especially from the provinces, with consolidation made at the national level. The support of the cooperating partners and NGOs in this regard is required.

Sanitation coverage figures for rural and urban are based on various surveys (the latest available data are from the 2002-2003 Household Consumption Survey or IAF). The only annually generated data available are the number of latrine slabs sold in peri-urban areas where DNA has monitoring mechanisms (10,324 in 2004), and the approximate number of latrines built in rural areas (6,000 in 2004). The coverage in peri-urban areas shows a small reduction (46.8 % in 2003 to 46.1 % in 2004).

Coverage at the end of 2004	Rural 2004	Urban 2004	Total rural+urban 2004	PAF target for 2004
Water supply	40.7%	36.0%	39.8 %	41%
Sanitation			45% (from 2002-2003 IAF)	35%

Progress has been registered in international river management, and in the elaboration of National Water Resources Strategy, revision of the National Water Policy and Water Act.

Particular highlights go to the signature of River Basin Commission Agreement of Zambeze and Limpopo, the ongoing joint studies in the Maputo, Umbeluzi and Pungoe river basins. Preparation process for the development of Rovuma, Save and Buzi has started and ongoing discussions for the establishment of Joint Water Commission between Mozambique and Tanzania. The preparation of the feasibility studies for the establishment of ARA Centro-Norte and ARA Norte has started.

Of 219 of hydrometric stations planned 60 were rehabilitated. Feasibility studies of Moamba Major dam have been concluded and the rehabilitation of Corumana and Massingir dam has started.

Strategic commitments and objectives

Strengthening the financial and administration areas of DNA and DPOPHs remains a high priority in order to improve the sector's performance in data management and reporting. DNA needs support in order to improve its responsibility in gathering timely sector information and data from all actors public and private. Despite reporting difficulties, it appears that both the regularity of the flow of sector funds and the execution rate seem to have improved compared with 2003. Cooperating partners are willing to support a specific project for capacity building, which will strengthen financial administration and gathering information at national and provincial levels.

The situation of DNA's debts (about USD 4 M), mainly linked to the work of the Emergency Commission (floods 2000 and 2001) is being resolved. About one third of the total debts have been liquidated by the end of 2004 and the first months of 2005 using the ASAS SWAp

funding. It has come to light during this joint review that some of the provinces also have significant debt problems with EPARs and private sectors. However, the true extent of these debts and their effect on annual performance is not known.

Monitoring and evaluation should be strengthened. Indicators measuring investment sustainability needs to be introduced as a PARPA objective. As the water sector has continued splitting into various institutions (DNA, FIPAG, ARAs, CRA, CEDESA, provinces, municipalities, among others) a consolidated report (operational and financial) of the sector is no longer available. The role of DNA needs to be adapted to provide this coordination and assemble an annual consolidated overview. This year the participation of the provincial directors in a meeting of the joint review was greatly appreciated, and constitutes an important first step towards increasing participation in future joint reviews by other key organizations. It was agreed that WSP should provide Terms of Reference from other countries with similar experience in order to support DNA in this regard.

DNA with support of PNDA is preparing an inventory of key studies and the reports will be available next year at the DNA's library.

Budget execution, harmonization and implementation of Sistafe

Neither the national nor the provincial water authorities confirmed the financial figures of the budget execution report provided by MPF. Significant differences were noticed and only a minority of budget and spending figures were confirmed.

Some illustrative examples:

- MF reported that DNA and the Provinces of Nampula, Zambézia, and Maputo had no budget for recurrent costs (Mapa 20 and 22, despesa de funcionamento), whereas both DNA and the provincial authorities reported that they did.
- MF reported for Niassa and Maputo Provinces (Mapa 21, código 47 212), no budget or spending for investment, whereas Niassa Province, for example, claims to have had a budget of Mts.8.4 billion and to have spent Mts. 5.9 billion.
- Similarly, MF claims that Manica Province (Mapa 21, código 47 212) had a budget of Mts. 5.9 billion, with spending of Mts. 3.8 billion, whereas the Provincial authorities report a budget amount of Mts. 4.7 billion, and spending of Mts. 2.5 billion).

The remaining provinces show a similar pattern. Final figures on the budget execution will be available in the '*Conta Geral do Estado*'.

According to the MF, the proportion of the state budget used for the water sector is decreasing (from approximately 2.8% in 2003 to 2.3% in 2004). It is likely that low budget execution is driving some funding out of the sector.

At central level (DNA), disbursement in 2004 was much more regular in 2004 than in 2003 and the internal execution rate was also higher (42.4% in 2004 up from 29.1% in 2003). The external component of the investment budget is low at 22.8% (down from 25.5% in 2003). The execution rate of the overall investment (internal and external) went down from 35.9% in 2003 to 28.2% in 2004. The likely reason for this is slow disbursement of sector-targeted funds originating from the World Bank, the African Development Bank, and the European Union.

According to the information provided by the provinces, the investment budget at provincial level is about Mts. 59.6 billion (as opposed to Mts. 45.0 billion in the MF report) and execution was Mts. 37.3 billion (instead of Mts. 25.1 billion in the MF reports), which represents an expenditure rate of about 63%, up significantly from the 41% registered in 2003. Major differences in expenditure rates were noted between the provinces. Several have experienced regular availability of funds and high execution rates.

No information is available on the "off budget" funding in the sector. More "on plan" funding should at least be made as a first step. Sistafe is not likely to be fully implemented in the sector until 2007, so preparations should be made to continue dealing with the "duodecimo" system for at least the next two years.

Transversal issues (gender, HIV/AIDS, environment)

There has been reported that there is significant progress in the ongoing studies on the impact of HIV/Aids in the water sector. On gender issues a meeting has been held last year with the Ministry of Woman and Social Affairs to discuss a mechanism that will allow the establishment of a body that will deal with gender issues within the sector. The ongoing drafting of the new Policy has a specific chapter on the environmental issues.

3. Key recommendations and lessons learned

- The monitoring system must be strengthened and improved to have reliable data on the PES/PAF indicators (coverage). A consultancy underway for sector MDGs planning could be used to help implement an improved, unified, and transparent system, which should be managed from within DNA. This consultancy, or a separate one, might be used to prepare the formats and implement the procedures for collecting and analyzing the information to be used in the joint and mid-year reviews.
- The areas of Planning and Finance in DNA and the provinces must be strengthened. This will require support from the cooperating partners. Improved relations between MF and DNA should make it possible to have correct, timely data available.
- Budget execution of investment funds must improve, especially for the external component. An intensive effort to identify the key constraints to increasing expenditures (linked to improved sustainability of works) should be undertaken. Serious and systematic work is needed to have a better idea of the "on budget" and "off budget" amounts available to the sector.
- Agreements (MoU) with those partners working off budget should be facilitated in order to receive regular information. Donor harmonization needs to advance in the water sector. More regular follow-up meetings of the core group of donors must take place during the year 2005, at least every 3 months to follow the joint review recommendations. In order to improve this mechanism DNA, with support of donors, has contracted a consultant to elaborate a National Strategy for achieving the MDGs. The scope of this consultancy will be widened to cover both the monitoring of the off-budget funding and the establishment of a database for a performance monitoring process.

17. WG: Gender

Executive summary

The prevailing lack of equality in rights and opportunities between men and women in Mozambique is, apart from a question of social justice, also an issue of economic development and efficiency. Gender inequality hampers growth and diminishes the success of poverty reduction measures. In this sense, the achievement of the PES and PARPA strategic objectives, poverty reduction and the promotion of economic development, requires a more concerted effort to invest in increased gender equality. In addition, a comprehensive vision needs to be developed about the links between poverty, lack of gender equality and the spread of HIV/AIDS. Without improvement in gender equality, poverty reduction goals cannot be attained, and the HIV/AIDS infection rate will continue to grow dramatically, thus endangering development gains.

Assessment of 2004

Progress

Although there is presently no specific indicator in the PAF list for the promotion of gender equality, the BdPES reports on the activities of the Government aiming towards this objective, confirming its long-standing commitment. The main achievements of 2004 were the establishment by the Council of Ministers of the National Council for the Advancement of Women (CNAM), the dissemination of the National Plan of Action for the Advancement of Women (PNAM) and the finalization of the National Gender Policy and Strategy, yet to be approved by the Council of Ministers. In addition, the approval of the Family Law by the National Assembly was an important landmark to improve women's rights in Mozambique.

Furthermore, the BdPES reports on the MDG indicator for gender equality, the achievement of gender parity in primary and secondary education by 2005, recognizing that an adequate response to this target would need a greater increase than now in female enrolment, retention and completion rates. However, nothing is reported on the other indicators of this objective, i.e., female to male literacy ratio, and women's participation in paid labour force and in the National Assembly.

It should also be kept in mind that the advances during 2004, as reported in the BdPES, in improving agricultural productivity, access to education, health services, water and sanitation all improve the situation of women by contributing to poverty reduction and, in some cases, to the reduction of women's work load.

Concerns

However, a lot more needs to be done because, apart from being a question of social justice, the prevailing lack of equality in rights and opportunities between men and women in Mozambique is also an issue of economic development and efficiency. Gender inequality hampers growth and diminishes the success of poverty reduction measures, as has been endorsed worldwide by the inclusion of the objective of increased gender equality in the MDGs. Accordingly, the recently approved GoM 5-year plan states that 'the empowerment of women is a decisive factor for the eradication of poverty'²¹. In this sense, the achievement of the PES and PARPA strategic objectives, poverty reduction and the promotion of economic development, would benefit from a more concerted effort to invest in increased gender equality.

²¹ República de Moçambique: Programa do Governo para 2005-2009, p. 113

- Presently, there are no specific allocations in the budget to ensure that women's needs are considered in the different sectors and no way to analyse whether women benefit as much as men of the available resources. National capacity in gendered planning and budgeting needs to be reinforced across the sectors through sustained training programmes with adequate funding. The only government resources that directly contribute to the policy aim of gender equality are those allocated to the Ministry of Women and Social Action (MMAS), especially to its National Directorate of Women (DNM), which currently is under-resourced and heavily reliant on donor funding. The coordination function of MMAS in the implementation of the GoM policy for gender equality needs to be recognized through adequate resource allocation in the OE, in accordance with the GoM 5-year plan, which states the need to 'increase the financial participation of the State, of NGOs and of other agencies in institutional support to the promotion of women's status'²².

In order to allocate the necessary resources in the most efficient way, careful planning is needed. In addition to what has already been started in the main sectoral policies of education, health and agriculture, gender mainstreaming needs to be seriously endorsed in ongoing transversal reforms, particularly in the area of governance. The public sector reform, the process of decentralization and the legal reform all offer excellent opportunities to increase women's participation and to acknowledge women's rights as human rights.

- Most importantly, a comprehensive vision is yet to be developed about the links between poverty, lack of gender equality and the spread of HIV/AIDS. Women's lack of economic and decision-making power has already made young women, including young married women, become the group in which infection rates grow fastest. Policies in these three areas should be informed by the understanding of the necessity to increase women's autonomy so that they can protect themselves from infection, and the need to change male behaviour so that women's rights are respected. One important measure in this sense would be the timely submission of the Bill on Domestic Violence to the Assembly of the Republic during 2006. Similarly, continued and strengthened investments in sexual and reproductive health are necessary for the achievement of poverty reduction goals and improved gender equality.

PES/PAF & PARPA 2005-06

As was agreed in the Aide Memoire of September 2004, the process of revision of PARPA will include the mainstreaming of gender and HIV/AIDS among other transversal issues in the new version of the document. It was also agreed that all indicators in the PAF list 2006 will be sex-disaggregated and that a specific indicator will be introduced to monitor the GoM's commitment to promote gender equality, based on the African Gender and Development Index (AGDI). These are important steps towards a more efficient implementation of the shared policy aim, increased gender equality in Mozambique. Poverty reduction goals cannot be attained without it. Also, without improvement in gender equality HIV/AIDS infection rate will continue to grow dramatically, thus endangering development gains.

²² Idem, p. 117

18. Working groups and focal persons

Working Groups	Focal person donors	Focal person GoM
Macroeconomic growth and stability	Gregor Binkert Rogers Dhliwayo	Pedro Couto
Poverty Analyses and Monitoring systems	Bridget Walker Muiambo	Momad Piaraly
Budget Analyses Group	Jolke Oppewal	António Laice
Tax reform	Telma Loforte, Simon Vandenbroeke	Amade Aziza
Procurement reform	Carsten Sandhop	Cândido Ramalho
SISTAFE	Lis Rossenholm	Carlos Jessen
Audit	Sylvie Millot	Jorge Marcelino,
Public sector reform	Mette Masst	Adelino da Cruz
Decentralization and local Governance	Fatima Amade* Jacob Massuanganhe	Domingos Lambo Manuel Guambe
Legal and judicial reform	Nina Berg	Abdul Carimo
Financial sector	Ravi Ruparel Simon Vanden Broeke	Joana David
Private Sector	Julius Schlothauer	Luís Siteo
Agricultural and rural development	Francoise Millecam*	Carlos Mucavel
Infrastructure Services		
Roads	Luis Santos*	Francisco Pereira
Energy	Anne Schow*	Pascoal Bacela
HIV/AIDS	Marcia Colquhoun* Carolin Forkin	Diogo Milagre
Health	Jonas Chambule*	Gertudes Machatine
Education	Julie Reviere*	Manuel Rego
Water and sanitation	Kees Konstapel*	Américo Muianga
Reporting requirements	Sylvie Millot	Jorge Marcelino
Programme Aid Partners Performance Assessment	Telma Loforte, Karin-Anette, Simon Vanden Broeke	José Sulemane
Gender	Petra Lantz; Lidia Meque	José Maria Jone