

## **Mid Year Review 2005**

### **AIDE MEMOIRE**

#### **1. Introduction**

On September 29, 2005, the Government of Mozambique met with the Programme Aid Partners (PAPs)<sup>1</sup> and observers to conclude the Mid-Year Review 2005. During the review a revised PES/PAF matrix for 2006-2008 was agreed, the Government's plans and priorities for 2006 were briefly reviewed (forward look) and the status of implementation of PES/PAF 2005 (backward look) was assessed. The review was based on the Government's monitoring documents (first semester Balanço do PES and Budget Execution Report) and on the Government's plans (draft PES and Budget 2006).

A high level political meeting was held during the review to follow up on the main concerns from the Joint Review in May, as well as raising additional issues. The dialogue was open and constructive and Government committed to follow up main concerns raised, namely: public finance management, governance, external audit, HIV/AIDS, food security, rural development, justice and private sector development.

Working groups<sup>2</sup> consisting of the Government, donors and civil society and distributed over four pillars<sup>3</sup> and cross-cutting areas<sup>4</sup> undertook detailed technical work in accordance with the agreed terms of references (annex 4).

The Mid-Year Review took place in the context of the preparation of a new poverty reduction strategy (PARPA II) which will be in place in 2006. As a result, the review could only consider the emerging priorities of the PARPA II.

This Aide Memoire is structured as follows: (i) Overview of the 2005 PES/PAF implementation and Government priorities for 2006; (ii) Summary reports of working groups; (iii) PAPs performance assessment framework; (iv) Annexes including: PES/PAF matrix 2006-08 (Annex 1), PAPs PAF matrix (Annex 2), full reports of working groups (Annex 3) and Terms of References for the review (Annex 4).

#### **2. General Overview**

As a general point throughout the review, the coherence between the different instruments of planning (PES and PAF), budgeting and monitoring was discussed, with a view to strengthen the link between the actions foreseen, their financing, and the targets to be reached. The consistency between these instruments is seen as the cornerstone of the dialogue between Government and PAP's on budget support. By the end of the review, the consistency between the PAF and PES was improved but

---

<sup>1</sup> Programme Aid Partners include Belgium, Denmark, Canada, the European Commission, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom and the World Bank. These 17 partners (G17) support a joint programme for providing budget support and have signed a Memorandum of Understanding with the Government. Observing external partners included: Japan, United States, UNDP, IMF, and the African Development Bank.

<sup>2</sup> A list of all working groups and thematic pillars is included in the ToRs for the review (annex 4).

<sup>3</sup> Poverty and macro economic management, Governance, Economic development and Human capital

<sup>4</sup> Gender, Environment and HIV/AIDS

there remains a need for substantial improvement. PAPs need to contribute to this consistency by facilitating the inclusion of external funds in the budget, planning and reporting documents.

The Mid Year Review noted that the overall level of **performance against the PES/PAF so far in 2005** had been encouraging. For example, expenditures in priority sectors for the first semester had been well above 65%, revenue collection had improved, expansion in primary education continued, some key indicators in health improved, districts were given a central role in combating poverty, the corruption survey was published and broad consultations on the draft anti-corruption strategy are promised.

However, some key concerns remain; (i) low half-year budget execution rates for funds in the investment budget; (ii) delays in the preparatory actions for roll-out of e-SISTAFE to the Ministry of Education and Culture (MEC); (iii) quality of education; (iv) generally slow progress in two key institutional reforms; public and justice sector reforms; and (v) the expected failure to meet the water and sanitation 2005 PES/PAF targets.

**Priorities for 2006** have been agreed in the PES/PAF matrix. Main challenges are summarised below:

Improvement in the Public Finance Management area: Key steps will be the implementation of the new procurement code, the broader roll-out of core functions of e-SISTAFE, further increased budget coverage, and strengthened internal and external audit. Additional steps towards an improved Medium-Term Expenditure Framework are also recommended. The review could not agree on a 2006 PAF indicator and target for the improved efficiency in tax administration. This indicator will be further discussed and approved before the next Joint Review. The PAPs and the Government agreed to seek a solution for the increasing outstanding VAT payments for infrastructure projects. The revision of the PAF indicator for expenditure in priority areas, in line with the PARPA II, is on the agenda for 2006 for an inclusion in the 2007 PAF. Finally, the 2006 PAF target for the e-SISTAFE roll-out will be set once the action plan for the second phase of the reform is approved.

To promote private sector development and employment creation, it is important to continue simplifying procedures; reform the fine system; increase the flexibility of the formal labour market; and foster agricultural and rural development through increased coverage of extension services, increased use of irrigation, strengthened micro- and rural finance institutions, etc.

Estimated HIV prevalence rates in Mozambique are increasing, yet the current capacity to implement the national response is limited. It is necessary to strengthen the multi-stakeholder dialogue to address the bottlenecks and accelerate the rollout of the PMTCT and ARV treatment programmes. Moreover, prevention programmes must be intensified and must address the inextricable link between gender inequality and HIV/AIDS.

Reforms in the judicial sector are essential and should focus on approving a vision document, increase access to justice, and advance the legal reform agenda.

Two more specific issues include: (i) the PAPs expect more dynamism in public sector reform, in particular actions in the areas of human resource management and salary reform; (ii) the need to build on the positive steps to make the district the development pole for combating poverty.

Finally, the Review agreed on a new matrix to assess the performance of PAP's in line with the Paris Declaration on Aid Effectiveness. This assessment will be done for the whole group and for each donor individually.

### **3. Summary reports of working groups**

#### **Pillar 1: Poverty and Macroeconomic Management**

##### **Growth and Macroeconomic Stability**

- During the first semester of 2005, production growth was strong leading to an expected growth rate of 7.7% by the end of year, as a result of a recovery in fishing, continued agricultural expansion and strong growth in construction. The drought that has affected some districts had only a modest impact on total agricultural production, although the number of people in need of assistance could be as high as half a million. Inflation has remained low as a result of lower food prices, and despite the sharp increase in prices for petroleum products.
- Most of the real effective exchange rate appreciation in 2004 was reversed in the first semester of 2005. While there were significant fluctuations during a short period, the exchange rate seems to have stabilized again, and all the operators have learned how to use the Central Bank's foreign exchange auction system introduced in January 2005.
- Rising oil prices in the international markets have posed a significant challenge. The Government has broadly maintained its policy of adjusting domestic prices in line with international price changes. While the increases of oil prices in international markets in 2004 were partly compensated by the appreciation of the exchange rate, the cumulative effect of further increases and the depreciation of the metical in the first semester of 2005 obliged the Government to raise domestic fuel prices by almost 50 percent.
- Looking forward to the second semester and 2006, the prospects for continued rapid growth and single digit inflation look good, provided the Government takes the agreed actions to improve the business climate and to reform the judicial, financial and public sector. The uncertainty regarding international oil prices poses a challenge that will require special attention.

##### **Poverty Analysis and Monitoring Systems**

###### **Status of 2005 PES/PAF implementation**

- Overall progress has been satisfactory. The process of elaborating PARPA II has been exploited to conduct a fundamental appraisal of the poverty

monitoring and evaluation system and to deepen and further institutionalise mechanisms for Government/ civil society actors. Civil society has responded positively to the increasing space that has been opened up by Government. Civil society, primarily through the G20, has also led their own processes and initiatives around poverty analysis and other inputs into the PARPA revision process. Government has also carried out further analysis of the IAF data in a number of key areas.

- Progress on the integration of the planning and budgeting instruments lags behind that which was planned.

### **Priorities for 2006**

- In looking forward, particular focus is needed in a number of key areas. First, consistency needs to be ensured between the PARPA, the Medium-Term Expenditure Framework, the PES (including the PAF matrix) and the State budget. The first step will be to improve the quality of the PES and the Balanço do PES and ensure that they are structured in accord with PARPA II. Second, the implementation of the revised monitoring and evaluation system will need to begin, accompanied by a comprehensive package to enhance capacity at all levels. Third, the Government of Mozambique will continue to create space at the national and provincial levels to engage civil society; while the latter needs to improve the quality of their contributions to the analysis of poverty and in the poverty monitoring and evaluation process. Fourth, continuing in the spirit of openness and consultation that has marked the PARPA revision process, Government will need to disseminate the PARPA II.

## **Public Finance Management**

### **Budget Execution**

#### **Status of the 2005 PES/PAF implementation**

- Overall budget spending distribution was satisfactory. Spending in priority area reached 66.9% of total expenditure, of which 54% in Health and Education. The study on off-budgets in Health was completed and a task-force was established to move external funds on-budget and on-treasury.
- Execution of the budget for goods & services (37.0%) and investments (26.3%) was low but better execution in the second half of the year is expected. Overall, the quality of the financial reporting improved by using new classifiers, though losing the functional information due to the change to the new system (e-SISTAFE).
- The link between figures in the sectors and those in the Budget Execution Report (BER) remains inconsistent. The BER in the new format contains less information on budget execution at sector level and the figures from different sources still do not fit. Also the planning of the financial operations remains weak, and detailed information on the on-lending activities of the Government is lacking.

## Priorities for 2006

- Agreement has been reached on an extended set of indicators for the budget cycle. The main differences for the coming years are: (i) a stronger focus on the allocation phase of the budget cycle (allocations in line with PARPA priorities); (ii) monitoring of execution more focused on expenditures for goods and services that are under control of the Government at central, provincial and district level and for which reliable data exist, reinforcing the importance of the priority sectors during the execution phase, and; (iii) more focus on increasing the coverage of the budget (both own revenues and external funds).
- The revision of the 65% indicator will have to result from the new PARPA. A clear definition of the spending units, by code, that are included in the priority sectors must be agreed upon. A solution should also be reached on the issue of including (all or part of) financial operations and debt payments as part of total expenditure.
- Key challenges outside the PAF are: (i) improved dialogue and flow of information between the Ministries of Finance, Planning and Development and the sector ministries; (ii) a more elaborated Medium Term Expenditure Framework (MTEF); (iii) improved treasury planning, and; (iv) more transparency on the financial operations.
- In the light of the ongoing exercise to include more internal and external funds on budget, further analysis is needed to determine: (i) to what extent the increase in the budget allocation for the priority areas (69.54%, as compared to the PAF target of 65%) is the effect of including previous off-budgets in the budget, and; (ii) how this exercise has impacted upon overall sectoral allocations, especially regarding the internal finance component.
- The expenditure on financial operations (not included when calculating share of priority sectors) is going up considerably from 3.4% (in 2005) to 3.7% (in 2006) of GDP.
- The Budget proposal shows progress in increasing the coverage of the budget (both own resources and donor funds), in the decentralization (direct allocations agreed for all districts and these are now budget units) and in decreasing the deficit financed by domestic credits.

## Tax Reform

### Status of the 2005 PES/PAF implementation

- Performance in the two indicators on tax reform until June 2005 is good: good recovery in revenue collection (almost on track for reaching target of 13.9% of GDP) and the process for the establishment of revenue authority at beginning of 2006 is on track. There are so far, no particular concerns for reaching the targets by the end of the year.

## Priorities for 2006

- To reach the total revenue collection target of 14.8% of GDP for 2006 and indicative targets for 2007-08.

- It was not possible to reach agreement in time on indicator and target for the objective of improved efficiency in tax administration (indicator to be left open until JR 2006), due to different Government, donors and private sector working group views on the inclusion of VAT reimbursements in the PAF matrix. However, all parties committed to intensify dialogue in the next months and sharing information in the context of a task force that has to be created. This should take into account work presently being done by Government on the issue.
- The PES and the Budget 2006 suitably reflect the commitment to increase revenue collection.

A critical issue in 2006 will be the management of the transition to the new Revenue Authority.

## **SISTAFE**

### **Status of the 2005 PES/PAF implementation**

- In May a plan was agreed to achieve the 2005 targets (stabilization of the financial execution, indirect budget execution and roll-out of direct budget execution to Ministry of Finance, Planning & Development and Education & Culture).
- In relation to the 2005 PAF indicators and targets the following assessment can be made:
  - The Budget Execution Report for the first semester was not extracted from e-SISTAFE. The application to extract reports from e-SISTAFE has been finalized, but not all transactions of the first semester have yet been migrated and regularized in e-SISTAFE.
  - The roll-out of e-SISTAFE to MEC is planned for November. There are some delays in the preparatory actions, but UTRAFE remains confident that roll-out will be achieved, and has committed to work more closely with MEC in order to meet the target.

### **Priorities for 2006**

- 2005 and 2006 are crucial years for e-SISTAFE, in which the roll-out of direct budget execution must be achieved to the bulk of ministries at central and provincial level. This roll-out is vital to ensure the achievement of the global objectives of the reform.
- The PAF indicator will focus on the roll-out of direct budget execution. It was agreed that the target for roll-out will be the target set in the action plan 2006-08 (to be approved by November 2005 and annexed to the new MoU signed with donors).
- The roll-out of the direct budget execution (areas of budget, treasury, and accounting) must be prioritized. Development of other functionalities can only be initiated when the successful roll out is ensured.
- UTRAFE will need to provide a detailed budget and will need to improve its project and change management capacity to successfully manage the large

scale roll-out to all sectors and to provide sufficient guarantees to the external partners in the Common Fund.

- The IT audit must be performed urgently.
- Discussion on a new SISTAFE MoU, Action Plan and Budget 2006-2008 is currently ongoing and the PAF roll-out indicator will be specified once agreement is reached, given that the current MoU expires at the end of 2005.
- The SISTAFE reform is dealt with in a very general way in the PES. The draft state budget generally reflects the current draft budget for SISTAFE reform and includes all external funds, even if these still need to be committed through a new MoU.

## **Procurement**

### **Status of the 2005 PES/PAF implementation**

- The 2005 PES/PAF indicator to approve a new procurement regulation by the Council of Ministers can be met. Nevertheless, this requires a well managed process of final stakeholder consultations. It was agreed that Draft 6 will require another thorough evaluation by stakeholders.
- The measures agreed during the JR 2005 to ensure that the implementation of a transparent and efficient procurement system is not further delayed have been initiated or are completed: a revised action plan has been elaborated and approved by UTRAFE; procurement audits in a sample of ministries have been conducted by IGF; ToRs for a consultant to elaborate standard bidding documents; a training programme for civil servants and suppliers and ToRs for the inclusion of a Code of Ethics into the new procurement regulation has been elaborated.

### **Priorities for 2006**

- The agreed 2006 PAF indicator for progress in the procurement reform is: Supervision Unit for Public Procurement (USAP) is created, budgeted and operating. This regulatory (or normative) body for the states procurement function is key for a coordinated roll out of the reform, a smooth functioning and efficient supervision of the modernized system, guaranteeing its integrity.
- Nevertheless, it was not possible for GoM to budget for USAP in the 2006 budget already. Budgeting will only be possible in 2006 for 2007 after USAP is created. For 2006 a mixture of funds from UTRESP (World Bank Public Sector Reform Project) and budget funds for the subsystem of state assets under which USAP will be created shall be used to create the unit and start its operation.
- Further action envisaged for 2006 according to the procurement reform action plan are: Specific Standard Bidding Documents (for educational materials, medicines etc.) will be elaborated and in use, a training programme for Ministries and decentralized entities will be approved and carried out, dissemination workshops will be given on the new procurement operations, the procurement information system will be approved and implemented, and a plan to strengthen internal controls on procurement related matters will be approved and implemented.

- Besides the PES/PAF matrix, the PES 2006 text does not deal with specific objectives and actions of the procurement reform. Procurement reform is not mentioned in the text.

## **Internal Audit**

### **Status of the 2005 PES/PAF implementation**

- IGF's performance in terms of implementation of its activity plan in the first semester 2005 is rather weak. Delay in the execution of the plan is due to various factors, among which the change of the Government, difficult planning estimations and weak collaboration with audited bodies.
- Nevertheless, procurement audits are underway as planned, with six central Ministries audited in the first semester. The final report is expected to be published by the end of the current year. Also, for the first time, a financial, administrative and patrimony evaluation has been carried out in 32 districts.
- Following the approval of the plan in April 2005, IGF is progressing in the implementation of its new role as supervisor of the sub-system of internal audit.
- The value for money audit for the water sector is due before the Joint Review 2006.
- Finally, a public finance management assessment will be undertaken by an independent expert's team in the last quarter of 2005, under the coordination of IGF.

### **Priorities for 2006**

- Although a broad monitoring of the coverage and quality of internal audit activities will be done in the regular dialogue with IGF, it has been agreed, on IGF proposal, to focus the 2006 PAF indicator on a new aspect of IGF tasks linked to the decentralization policy. A new PAF indicator has thus been agreed on. It will cover the percentage of districts and municipalities that will have accounts audited by IGF in a given year.
- An ambitious target has been set for the next three years. In 2006, the activities will concentrate on Niassa, the central region and Inhambane. The objective is the progressive creation of provincial delegations of IGF, with a coordinating role of DPPF and sectors at provincial level for the audit activities, supported by the creation of audit committees. External resources are already earmarked for 2006 through existing programmes.
- Although initially supported by external resources, the national budget will have from 2007 to integrate the costs of the decentralization effort linked to the PAF indicator.
- The sub system of internal control does not have a proper budget. External resources to support its consolidation will be requested by IGF for 2006 in a dialogue with interested partners. This should foresee a progressive integration in the state budget.
- The group noted that the PES 2006 does not mention internal audit activities or objectives, contrary to what was recommended in the Joint Review. Also

existing external funds in support of IGF are not reflected in the 2006 investment budget.

- Next sectors to be selected for a value for money audit exercise have been proposed and agreed between IGF, the group and the respective sectors: justice for 2006 and agriculture for 2007.
- The results of the public finance management assessment should be part of our dialogue on both performance assessment at the 2006 Joint Review and on the identification of the PAF priorities at the following MYR.

## **External Audit**

### **Status of the 2005 PES/PAF implementation**

- Positive developments in the dialogue with Tribunal Administrativo (TA) occurred since the May 2005 Joint Review. This process led to the agreement of a new indicator to be included in the 2005 PAF, allowing for monitoring the external audit area. This indicator (“number of audit reports done annually by the TA”) will be assessed at the next Joint Review.
- On the basis of the supreme audit institution assessment, the achievement of the 2005 PAF target is realistic and activities have been implemented according to the programme for the first semester 2005:

### **Priorities for 2006**

- A target for 2006 has been agreed for the same PAF indicator. The TA finds it premature to define and commit itself for the subsequent years, so that those targets will be defined at the next mid-year review.
- PAPs express their wish to continue the dialogue opened with the TA and the Government in order to follow the developments of the external audit area as a crucial element of public finance management.
- Part of this dialogue will deal with support some donors may provide to cope with additional needs of the TA. Such a support should progressively be incorporated in the national budget.
- This dialogue will also cover additional information to the strict PAF indicator that PAPs would like to receive, for the next Joint Review exercise, on (i) the volume of public funds covered by the audits yearly realized, (ii) the list of the audited bodies, and (iii) the follow up to the reports once they have been concluded. This would provide PAPs with a broader picture of the coverage of the external audit activity and of its output.
- Consistently with the previous years, the TA is going to submit the audit report and opinion about the General State Accounts within the limits (30 November) established by law (SISTAFE Law, 2002, art. 50). PAPs and TA acknowledge that the 2006 PES includes, for the first time, activities and institutional development actions for the supreme audit institution.
- Regarding the 2006 State Budget, TA observes that the allocation in the recurrent budget meets its expectations although investment allocation was reduced notably from the previous year. The external support to the TA is not reflected in the investment budget.

## **Pillar 2: Governance**

### **Public Sector Reform**

#### **Status of 2005 PES/PAF Implementation**

- Progress in PSR in the first half of 2005 has continued to consist of preparatory actions, with limited results in improved service delivery. Some progress was made in the Functional Analysis taking place in the Ministries, but the restructuring process has not moved quickly.
- More notable progress was evident in the Anti-Corruption area, with the revised strategy to go before the Council of Ministers before the end of the year.
- In general PSR progress has been slow, reflected in the low levels of donor fund disbursement in the sector.

#### **Priorities for 2006**

- Following the completion of the Review of Phase I of the Public Sector Reform (October 2005), the design of Phase II to be completed, with levels of funding agreed between Government and donor partners.
- The functional analyses should be completed and restructuring started within MISAU, MEC, MINAG, MIC, MAE, MPD and MF.
- Government commitment needs to be substantiated through positive actions in the areas of human resource management and salary reform. 2006 should see the beginning of implementation of the main elements of a salary reform process, starting with the harmonisation of the three databases (SIP, TA, and payroll). Government should also increase the use of open tender competitions as the basis for filling vacant posts in the public service.
- The Gabinete Central de Combate a Corrupção should be given enough resources and cooperation to ensure a significant increase in the number of serious corruption cases dealt with (fully investigated and, where relevant, judged by the court system).
- Regarding the practice of fine sharing, the Government commits: (i) to make an analysis as soon as possible on measures to take to abolish the participation of individual inspectors and administrative agents in the fines levied; (ii) to implement the measures as soon as the analysis is completed; and (iii) to ensure that in the future all fines are deposited and registered in the Treasury revenue account. The intention is to abolish the practice by end 2007.

### **Decentralization**

#### **Status of 2005 PES/PAF Implementation**

- In the sub-area of Decentralization, there have been indications of significant policy shifts. This has been partly a result of legislative changes, including the

regulations for the LOLE and SISTAFE and partly as a result of policy announcements.

- The Government emphasised that it will make the district the development pole for combating poverty.
- The Government instituted an allocation of \$300,000 per year to each district through the budget in 2006.
- While this policy shifts is promising it also raises some concerns. The policy frameworks, methodological instruments and technical support necessary to provide districts with predictable allocation that can be effectively absorbed and accounted for, have lagged far behind.
- The PAF indicators for 2005 have seen limited progress.

### **Priorities for 2006**

- While overall progress has been made in positioning the district for a more important role in future, the Government needs to make and implement specific and practical commitments to supporting them in achieving this objective.
- Critical issues include adoption of a national policy for decentralization covering districts and municipalities and clarification of the division of roles and responsibilities between local Governments (provincial and district) and municipalities.
- The PAF indicators for 2006-2008 have therefore been revised to ensure the critical path items are in place to promote effective local service delivery over time.

### **Justice Sector Reform**

#### **Status of 2005 PES/PAF implementation**

- In the Justice Sector, some positive developments have been taking place, namely the institutionalisation of Coordination Council for Justice and Legality (CCLJ), a greater dynamism in the institutional coordination with the international partners, the revitalization of the Vision-process and the continuation of the survey on corruption within the justice sector.
- At the same time, the delay in the foreseen legislative reform and in the setting up of a coordinated Monitoring and Evaluation system should be pointed out.
- Consequently, the lack of statistical data in the Balanço do PES 2005, complicates the analysis of the performance of the sector regarding the strategy for access to justice. The budget execution in the first semester of 2005 reflects the low application of investment funds, particularly in the prison sector.
- However, the Justice Sector foresees, before the end of this year, the approval of the scheduled legislative reforms (PAF 05), the Vision-document (PAF 05) and the design of an integrated system for monitoring and evaluation (PAF 05) with a set of new performance indicators and of budgetary execution.

### **Priorities for 2006**

- The Government will continue to make efforts to allocate resources to the rehabilitation and the building of the infrastructures of the Justice sector.
- Improvement of the justice services and of access to justice by increasing the number of judicial verdicts and other actions that will be defined in the updated version of the Integrated Strategic Plan of the sector (updating foreseen by end of 2005).
- A harmonised system of monitoring and evaluation will be elaborated by the end of 2005 and implementation will start in 2006.

### **Pillar 3: Economic Development**

#### **Financial Sector**

##### **Status of 2005 PES/PAF implementation**

- Generally, actions against 2005 PAF targets are being undertaken, but with some delays and uncertainties. The forensic audit is on track, LFL legislation (Bankruptcy Law) has been drafted and may still be approved in 2005 depending on the parliamentary agenda, the BIM strategy is close to completion but implementation may not start in 2005. It remains unclear when the social protection law will be submitted to parliament. The actuarial study of the social security system is expected to start during the second quarter of 2006.

##### **Priorities for 2006**

- The Financial Sector Working Group, chaired by the BoM, has selected five PAF targets for 2006 that are key to further progress in strengthening the financial system in Mozambique: the submission of the Bankruptcy Law and issue of related regulations to strengthen banking supervision; the issuing of a chart of accounts and new tax regulations in preparation of the introduction of International Financial Reporting Standards (IFRS) in 2007; the issuing of prudential regulations for the microfinance sector; the conclusion of the actuarial study to assess the financial viability of the social security system; and follow-up action to the forensic audit of the Banco Austral to strengthen accountability in the banking sector.

#### **Agriculture**

##### **Status of 2005 PES/PAF implementation**

Of the analysis done for the first semester, it was verified that MINAG's performance was positive.

- Two of the eight indicators evaluated have reached the goals foreseen for the year of 2005.
- The implementation of the Institutional Reform was accelerated, and it is foreseen that the internal regulations of the new institutions and the respective staff profile will be concluded by the end of the year.

- Progress has been made on the integration of the main planning tools, namely PAAO, PES e PAF.
- Funds disbursement, budget execution levels, and information collection systems have improved when compared to the same period of the previous year.
- Progress was registered in the preparatory work for the establishment of the Management Information System (SIG). However, MINAG now needs to take essential decisions, to enable the implementation, establishment, and development of the SIG before the end of 2005.
- The PAPs have also expressed concerns regarding the Agriculture Crop Production Supplementary Program in the 2005/2006 campaign (*Programa Suplementar de Produção de Diversas Culturas na Campanha Agrícola 2005/2006*), launched by MINAG outside the proper PROAGRI consultation mechanisms and agreed procedures.

### **Priorities for 2006**

- The analysis of the 2006 proposed state budget for agriculture and rural development shows a small decline of approximately 3% in comparison to the 2005 approved state budget. This may be offset by an increased allocation at the provincial level.
- PROAGRI II will start in 2006, and the 2006 PAAO focuses on core functions and strategic actions (AE). There is a need to clarify the scope and definition of and the planning and implementation mechanisms for these strategic actions.
- MINAG should continue its efforts to define the priorities for the sector and these should then be properly reflected in a medium term expenditure framework, to be eventually agreed with MPD and MF.
- There is a need to clarify MINAG and MPD operational responsibilities for rural development specifically with regard to the actions that are considered as new activities in the PROAGRI II strategic document.

### **Private sector**

#### **Status of 2005 PES/PAF implementation**

Progress to date in improving the business environment has been modest at best:

- *'Balcões Únicos'* in process of establishment; there has been some impacted noted.

Second half of 2005 significant progress is needed in the following areas:

- Labour law revision submitted to Parliament.
- Sectoral ministries (tourism, fisheries etc.) begin to simplify and speed up licensing requirements.
- Fine-sharing: Measures will be taken for all ministries to eliminate this practice.

- Delays in VAT refunds and other GoM payments significantly reduced.
- Commercial code enacted and implementation begun.
- HIV/AIDS combated in workplace through joint GoM/Donor/Private Sector efforts.

### **Priorities for 2006**

The business environment will be improved by:

- The New Labour Law envisages reduction in the retrenchment costs (percentage to be decided) and also envisages liberalization of other aspects of the labour market.
- Business registration and licensing time reduced to 90 days (2006) and 60 days (2007).
- Other steps in agriculture, banking, procurement, auditing etc. need to be taken to improve the business environment.

### **Roads**

#### **Status of 2005 PES/PAF implementation**

- Although the overall financial capacity for the road sector has improved through an increased fuel levy, it is a major concern that part of those funds continue to be shifted to pay the rehabilitation programme and VAT instead of being used for road maintenance (periodic and routine) purposes only. During the first half of 2005, payments to Contractors were delayed on N1 road contracts financed by WB due to monthly ceiling of funds, which were prior determined.

### **Priorities for 2006**

- Donors would welcome increased leadership from Road Fund (RF) and ANE in determination of priorities and increased dissemination and enactment of national policies at national, provincial and district levels. From July 2005, ANE quarterly reports are distributed to road donor core group.
- It is important that ANE continues to improve its institutional capacity for the planning and project designing, implementation of projects, supervision services, road maintenance and the decentralization process.
- Increase the percentage of road network in good or reasonable conditions.

### **Energy**

#### **Status of 2005 PES/PAF implementation**

Since the Joint Review 2005, progress has been made towards developing the Mozambique-Malawi Interconnection. However, critical areas to address are:

- No progress has been made as yet regarding a funding mechanism for FUNAE.
- A new performance contract with EDM has not been signed.

- A clear decision regarding CENELEC's (National Commission for Electricity) future role has not been taken.

### **Priorities for 2006**

- The development of new sources of power generation should be prioritised.
- Institutional development of the new Ministry of Energy is a priority.
- A new indicator for the 2006 matrix is included i.e. increase access to electricity (all energy resources) with 30,000 new connections.
- Promote the expansion of distribution and commercialization of kerosene, LPG, biomass project etc.

## **Pillar 4: Human Capital**

### **Education**

#### **Status of the 2005 PES/PAF implementation**

- The various levels of education continued to expand significantly. This expansion, particularly at the EP1 (Primary School, grades 1 to 5) level was not accompanied by the recruitment of a sufficient number of teachers, resulting in an increase in the student-teacher ratio in EP1 from 66 to 74 in the space of only one year. This has negative implications for the improvement of the quality of education.
- The re-structuring of MEC contributed to the delay in completing the ESSP II, which includes various policies and sector strategies. MEC will prioritize the completion and the approval of ESSP II by the end of this year, in order to enable the achievement of sector activities.

### **Priorities for 2006**

- In accordance with the objectives in the Government of Mozambique's Five Year Plan, and in line with the Millenium Development Goals (MDGs), the PES foresees the continued expansion of the education system. This expansion will require additional financial resources. Resources have been allocated in the budget for an additional 9,103 posts for education personnel, which will permit expansion of the primary education system, but may not permit improvements to the pupil/teacher ratio.
- The sector wishes to include a quality indicator on the pupil/teacher ratio. It was concluded that the sector would do a thorough analysis of the issue and this indicator would thereafter be included in the PAF for 2007.
- Owing to the delay in the completion of the teacher training strategy, and the technical-professional training strategy, the 2006 PES doesn't reflect the full range of actions required to accelerate the pre-service and in-service training of teachers, and the reform of technical-professional education.
- For the first time this year, the inclusion of a large portion of external funds in the sector budget for next year, contributed to a significant improvement in the planning process. There is a need to continue with this practice, guaranteeing timely disbursements.

## **Health**

### **Status of the 2005 PES/PAF implementation**

- Updated information for the 1<sup>st</sup> Semester 2005 shows an improvement of the key indicators of the sector as compared to the same period last year. With respect to HIV/AIDS, there has been scaling up of activities, which is translated in a significant improvement of indicators on Prevention of Mother-to-Child-Transmission (PMTCT) and Anti-Retroviral (ARV) therapy.
- A complete analysis of the performance of the sector should also consider the ongoing reforms context that not only the health sector but the country as a whole is experiencing, including new plans and processes initiated since the beginning of 2005.
- The budgetary execution of the sector for the first semester of 2005 was poor, particularly at central level, as a partial result of a combined effect of the delay in the approval of the State Budget, and subsequent adjustment of the plans.
- Inclusion of more projects with external funds and the respective execution improved the quality of information provided in the report; however, there are still reserves on the reliability of data.

### **Priorities for 2006**

- For the second half of 2005 and for 2006, a number of priority activities have been planned in the fields of reform, management and service delivery. Functional analysis will be intensified and completed, and the review of the planning and management processes of the sector will gain a new momentum with technical support from an academic institution commissioned for the effect.
- A Health Network Development Plan will be developed to respond to the sector's concern in terms of basic infrastructures and their refurbishment. It is equally expected that the Human Resources Development Plan will be finalised which will ensure training and deployment of staff in accordance with priorities and health network development.
- In the area of provision of health services, the priority programmes of the sector will be strengthened with particular emphasis on the implementation of National Strategic Plan for HIV/AIDS in the Health Sector (PEN Saúde). The sector will not, at this point, alter the Performance Appraisal Framework (PAF), but PMTCT indicator targets have been reviewed and the ARV indicator has been re-introduced and its targets have equally been reviewed taking into account the real capacity of the sector.

- The priorities of the Social and Economic Plan (PES) 2006, health component, will focus on the expansion and strengthening of the National Health Services (NHS), reduction of regional inequalities and improvement of the quality of care within the allocated limits of the State Budget. However, the needs in terms of new staff recruitment, staff promotion and investments continue to be the major challenges for the sector in 2006.

## **HIV/AIDS**

### **Status of the 2005 PES/PAF implementation**

- PARPA II objectives and indicators, based on the HIV/AIDS National Strategic Plan (PEN II) framework, have been developed. All ministries and provincial directorates, as well as many private sector and civil society organizations have submitted two year HIV/AIDS operational plans supporting PEN II implementation.
- Provincial Governors have been called upon to enhance their leadership of the provincial response.
- National AIDS Council (CNCS) dialogue with key stakeholders and interlocutors has improved. 700 organizations are currently receiving support from CNCS. A program to support private sector initiatives is operational. The process to simplify the Grant Management System (thereby improving efficiencies) has yet to be finalized.
- A *National HIV/AIDS Communication Strategy* has been drafted.
- The Ministry of Women and Social Action (MMAS) has developed a three year *National Action Plan for OVCs*.
- The latest HIV Surveillance Report estimates that 2004 prevalence rates are 16.2% - up from 13.6% in 2002. Significant regional variations persist (and need to be better understood).
- The Ministry of Health (MISAU) has signalled that the National Strategic Plan for STI/HIV/AIDS (PEN Saude) antiretroviral treatment (TARV) and prevention of vertical transmission (PVT) targets are too ambitious.

### **Priorities for 2006**

- Government commitment at the highest levels continues to be essential to drive the national response. Sectoral and provincial operational plans, PARPA II objectives and the Communication Strategy must all be translated into adequately resourced and implemented programs.
- More efforts are required to implement workplace policies in the private and public sectors.
- The *National Action Plan for OVCs* must be implemented.
- Further investigation and multi-stakeholder dialogue is required to identify and address the bottlenecks in the roll out of TARV and PVT programs.
- There is a need for targeted programming to address the inextricable link between gender inequality and HIV/AIDS. Youth, especially out-of-school youth and girls aged 10-15; need to be a primary focus of participatory prevention efforts.

- Efforts must continue to improve harmonization, alignment and simplification of systems, structures and procedures. The new Grant Management System Operations Manual must be finalized and implemented before the end of the year.
- Further M&E capacity and institutional development efforts are required to ensure an adequate understanding of the epidemic.
- A public sector impact assessment, a sub-projects impact assessment and a financial management capacity assessment will be carried out in the coming months.
- New terms of reference for the Partners Forum, as well as a Code of Conduct and a Partners Performance Matrix will also be developed in the coming months.
- HIV/AIDS received improved treatment in the PES 2006, though human resource impacts could have been better reflected.
- The big increase in funding for CNCS in the OE is due to the inclusion of external funds. The risks associated with the imbalance between external and OE funding of CNCS need to be considered.

### **Water and Sanitation**

#### **Status of the 2005 PES/PAF implementation**

- Using additional information from DNA it can be concluded that irregular and low disbursements of the internal investment funds have again seriously affected the sector's performance and caused delays in the execution of externally funded projects.
- The PES/PAF targets for 2005 will not be met. DNA forecasts that the coverage rate for drinking water will be 4% less and the rate for sanitation 2% below the 2005 targets.

#### **Priorities for 2006**

- Considering the performance problems of the sector, the targets for the PES/PAF indicators for the period 2006-2008 have been reduced.
- MOPH/DNA and MF should urgently negotiate a solution for DNA's ever increasing debt burden of outstanding VAT-payments.
- Service delivery in the sector will be improved through special efforts in capacity building and institutional development, particularly at decentralised levels.
- Funds will be made available from the central budget of the water sector for 2006 to ensure the execution of planned activities in the area of rural water.
- 

### **Gender**

#### **Status of 2005 PES/PAF implementation**

- There is increased recognition that existing gaps in rights and opportunities between men and women in Mozambique have a bearing on economic

development and efficiency. According to the Government Plan 2005-2009 “the empowerment of women is a decisive factor for the eradication of poverty”.

- Government’s commitment to gender equality and women’s empowerment is reaffirmed in the ongoing PARPA II preparations, as well as in the last Joint Review.

### **Priorities for 2006**

- Approve the National Gender Policy and strategy and make efforts towards its implementation.
- Ensure that the PES and PARPA II strategic objectives and activities are strongly linked to improving gender equality.
- Ensure that the PARPA II is based on a comprehensive vision of the linkages between poverty, gender inequality and the spread of HIV/AIDS.

### **Food Security**

#### **Status of 2005 PES/PAF implementation**

- Despite the strong economic growth and the reduction of absolute poverty levels from 70% (1996-97) to 54% (2002-03), the food security and nutrition situation is still of great concern. It is foreseen that for the current agricultural season (2004-05), 430.000 people might become vulnerable, mainly in areas chronically sensitive to droughts, such as the southern region and some districts in the centre, who will need some assistance until the next harvest. On the other side chronic malnutrition in Mozambique remains high, affecting 41% of children under 5 years (1.3 millions), and covering the whole country, including productive areas.

### **Priorities for 2006**

- The Government is going to take structural measures to reduce the chronic malnutrition of the population, and to mitigate the effects of the cyclic droughts in the south and centre regions, with the urgent task of working in the area of nutritional education to achieve change in eating habits. It is proposed that a suitable indicator be discussed which could be included in the PAF matrix in the future.

### **Environment**

#### **Status of the 2005 PES/PAF implementation**

- The progress report on integration of environmental issues into the PARPA, will be finished by the beginning of next year. The draft compendium of Environmental Statistics has been finished and the drawing up of Environmental Indicators is ongoing. There is still no clear definition of the date of approval of the policy and law regarding territorial and physical planning.

## **Priorities for 2006**

- To approve and disseminate the Mozambican Environmental Strategy for Sustainable Development.
- To improve the integration of environmental issues into other Governmental sectors, through the creation of additional capacity in already existing environmental institutions.
- To elaborate district (physical) plans in Manica, Macossa, Maringue, Machanga, Muanza, Chemba, Chifunde, Macanga, Mutarara, Changara, Namacurra, Nicoadala, Chinde and Gilé as well as to finish Environmental Strategic Assessment in Belulane and Chibuto.
- To realize environmental audit and inspection in development projects
- To disseminate environmental information through radio (648 local radio programmes and 36 national programmes with provincial re-broadcasting)
- To implement an environmental campaign and pilot project on environmental best practice and natural resource management;
- To elaborate the territorial and coastal management regulations.

## **4. PAFs performance assessment framework**

### **Status of 2005 PAFs PAF Implementation**

Progress was made on the Aide Memoire commitments, in particular:

- The Joint Steering Committee commissioned a consultant in 2005 in order to produce a revised PAP's PAF matrix and rating system. The new matrix will be used to assess PAP performance in 2006, both as a group and with performance ratings for each individual donor, with the assessment conducted by independent consultants. Both the matrix and the performance rating system are attached in **Annex 2**. The new matrix is extended to cover a greater part of the PAFs portfolio.
- The process for elaborating an options paper for capacity development support is expected to start in November, but will not be concluded until the first quarter of 2006. ToRs have been finalized but are yet to be formally agreed with GoM. A multi-sectoral sub-group has been established to manage this process.
- A sub-group on sectoral alignment was established to take forward the aid effectiveness agenda at sectoral level.
- A task force on off-budgets was established in May 2005. As a result, good progress was made in bringing aid on-budget during the year, with a 12% increase in the amount of external funding captured in the 2006 State Budget (in U.S. dollar terms) compared to that of the previous year.
- PAFs respected an agreed quiet period with the Ministries of Finance and Planning and Development during mid-June to mid-August in that no official meetings were held. The period was not perfectly observed however, and there remains room for improvement here.

- The proposed exercise to verify the consistency of all PAP programme aid bilateral agreements with the MoU is underway and is set to be finalised in October.
- Negotiations were well underway at the time of writing with a view to bringing the African Development Bank into the PAPs group.

### **Priorities for 2006**

A number of areas merit particular attention in 2006:

- With regard to the newly adopted PAPs PAF matrix and ranking, it will be important for PAPs to commit in advance to accept and respond to the results of the assessment. GoM emphasises the need to increase the predictability of disbursements in particular.
- The PAPs PAF exercise should help to develop a better defined “quiet period”, with dates to be set at the Joint Review each year.
- Further progress towards the integration of external funding in the GoM’s budgetary systems is needed.
- The sub-groups established to work on sectoral alignment and capacity development should look to deliver further progress on broadening the aid effectiveness of the PAPs entire portfolio.
- The PAPs commit to follow up on any inconsistencies between bilateral agreements and the MoU highlighted by the ongoing review exercise. Rather than revising existing agreements, the emphasis will be placed on eliminating inconsistencies when new agreements come to be drafted and agreed.
- With the arrival of new members, what is already a large and diverse group will become increasingly heterogeneous. It is important that the group retains its focus on improving harmonisation and alignment.
- PAPs will reflect on priorities following the publication of the new PARPA document, possibly including a GoM statement on aid policy.
- PAPs need to look into making multi year rolling commitments linked to an improved MTEF.