

Maputo,
September 14, 2006

Mid Year Review 2006 **Aide-Mémoire**

agreed between
the Government of Mozambique and
the Programme Aid Partners

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Aide-Mémoire

On September 14, 2006, the Government of Mozambique (GoM) met with the Programme Aid Partners (PAPs)¹ and observers² to conclude the 2006 Mid Year Review (MYR).

During the Review, the final indicators and targets of the Performance Assessment Framework (PAF) 2007-2009 were agreed. The targets for 2008 and 2009 are still indicative. The GoM and the PAPs agreed that the forty indicators and their respective targets reflect key actions needed to achieve PARPA II's main objective, which is to reduce the incidence of poverty, specifically from 54% to 45% in 2009. The Government's performance, based on the forty targets agreed for 2007, will be assessed during the 2008 Joint Review. The results from that review will inform the PAPs commitments with regard to direct budget support for 2009. PARPA II's Strategic Matrix, with targets for 2007, including the forty agreed PAF indicators, will be annexed to the PES 2007.

The GoM and the PAPs also agreed on the indicators and targets of the PAPs performance assessment matrix. These targets relate to the fulfilment of their commitments undertaken in the "Paris Declaration", with some commitments more ambitious than the ones defined in the "Declaration". It also includes specific targets for their programmes in Mozambique, like for example the percentage of direct budget support. The objective of these targets is to improve the efficacy of the aid provided by the PAPs to Mozambique, thereby contributing to a better implementation of the PARPA II and to reducing poverty. The PAPs' performance, based on the respective indicators and targets, will also be assessed in the 2008 Joint Review, both for the PAPs as a group, as for each individual member of the group.

In addition to reaching an agreement on the two sets of indicators and their targets, the second objective of the MYR was to establish dialogue between the Government and the partners on the status of implementation of the Social-Economic Plan (PES) 2006, focusing on the PAF 2006 indicators and targets. The review was based on the Government's monitoring documents (Balanço do PES and Budget Execution Report) for the first semester. The different working groups, distributed over four thematic pillars and cross-cutting areas, and consisting of representatives from the Government, PAPs, other donors and civil society, completed the reviews in their assigned areas; their reports are included in this *Aide-Mémoire*. The main issues raised in the reports were compiled in a summary document and discussed in the PAFCoG meeting held on Monday, September 11. A political-level meeting was held during the review to discuss the PAPs main concerns.

In accordance with the ToR, the Mid-Year Review did not discuss the 2007 State Budget, since the IMF mission confirmed, in the presentation of its findings to the donors on September 11, that there are no serious problems of coherence between the macroeconomic framework and the proposed 2007 budget. It was agreed with the Government that a chart showing the total expenditure in the priority areas would be included in the 2007 budget proposal.

¹ Programme Aid Partners include African Development Bank, Belgium, Canada, Denmark, European Commission, Finland, France, Germany, Holland, Ireland, Italy, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom and the World Bank. These 18 partners (G18) support a joint programme for providing budget support and have signed a Memorandum of Understanding with the Government.

² Observing external partners include: IMF, Japan, UNDP and United States.

During the Review, 14 of the 16 PAP members reconfirmed their commitments on direct budget support to the State Budget for 2007, as stipulated in the MoU. Two of the PAPs were unable to reconfirm before the closing date of August 31, and two others will confirm at a later date, in line with annex 10 of the MoU. The total value for direct budget support to the 2007 State Budget will be USD 370 million. In addition, the PAPs reconfirmed a total of USD 213 million for their sectoral support.

Two additional matters pending since the Joint Review in April 2006 were concluded as follows:

- The Memorandum of Understanding on Direct Budget Support foresees the annual delivery of a value for money audit. During the 2006 Joint Review, it was confirmed that the Justice sector would be chosen for 2006. After high level political discussions, it was agreed that the audit on the Justice sector would be carried out over two years (2006-2007). The GoM and the PAPs agreed that the value for money audit in 2006 should assess the Justice sector, leaving the case management analysis for 2007. It is believed that the audit will provide useful recommendations for the implementation of the new strategic plan for the Justice sector. The terms of reference for this audit were prepared and approved in general terms. Efforts should be made to begin the work immediately following the MYR, so as to obtain a preliminary product for the 2007 Joint Review and a final product for the 2008 Joint Review. The final report for the 2005 Value for Money (VfM) audit on the Water sector should be approved by the Minister of Finance toward the end of September 2006, while follow-up on the implementation of the recommendations highlighted in the roads sector audit report should begin immediately.
- The 2005 indicator for the EP1 completion rate, for which there was no information available at the time of the Joint Review, was met (for details see human capital pillar report).

Finally, it was agreed between the Government and the PAPs that the matter of Banco Austral would continue on the agenda for the next political meetings between the GoM and the PAPs (end of November/ beginning of December and thereafter). A high-level technical working group will advise on the steps to be taken, including the formulation of follow-up actions and continuation of the reports, giving due consideration to the Government's responsibilities and to the autonomy of the judicial system.

In accordance with the ToR for the Mid-Year Review, and in order to simplify the process and make it less cumbersome, it was decided that a separate report would not be prepared in addition to those produced by the pillars, but that the minutes of the meeting at which the main issues were discussed would be included as annexes to the *Aide-Mémoire*.

Annex 1 Reports on the four pillars and cross-cutting areas

Poverty, Macroeconomic and Public Finance Management

Growth and macroeconomic stability

The initial values indicate a 10% growth of the aggregate production in the first semester of 2006, with a 10.9% growth in agriculture, with the services having performed above expectations. The accumulated growth rate of inflation since the beginning of the year is 2.6%. Restrained monetary policy, stable international oil prices and a favourable agricultural season contributed to the deceleration of inflation. The Metical accumulated a depreciation of 1.54% in relation to the United States Dollar, and an appreciation of 6.84% in relation to the South African Rand, in the first semester of 2006. This exchange rate behaviour contributed to reduce the inflationary pressure in the second half of the first semester.

In the monetary area, the position of gross international reserves improved, going from 4.6 months in December 2005, to 5.1 months of coverage for imports of non-factorial goods and services, at the end of June 2006, which corresponds to a net international reserve balance of USD 1159 million. The Monetary Base was at 12 201 million MTn, in line with the values programmed for June 2006. The value in US Dollars of goods exports increased by 40% in the first half of 2006, contributing to a 27% improvement in the goods trade balance, compared to the first semester of 2005. The total value of imports increased by 24.9%, at a lesser rate than for exports.

Poverty Monitoring

The start of the dissemination of the PARPA II through the Poverty Observatories and the completion of PARPA II's Strategic Indicators Matrix, the latter a joint effort by the Government, Cooperation Partners and Civil Society, were important steps for establishing a basis for an effective monitoring of PARPA II's progress. The challenge that follows is to strengthen the monitoring and evaluation system in order to produce timely data and information needed to feed planning and monitoring at all levels. The development of the PES and BdPES methodology for the sectors and provinces, and the start of the PARPA II Communication Strategy implementation are seen as priorities for the second semester of 2006.

Public Finance Management

In general, progress was made in the actions to guarantee the achievement of the PAF 2006 objectives and targets. However, there are some areas of concern which need to be addressed, in order to be able to contribute toward better results at the end of the year.

The main issues to highlight on the indicators are:

- The indicator on **65% expenditure executed in the priority areas** was not met (61.9%) by the end of 6 months' budget execution; however, the indicator of at least 50% of expenditure in the Health and Education priority sectors was reached (57%).
- The indicator on **budget execution rate for recurrent expenditure on goods and services in priority sectors greater than rate in non-priority sectors** was not achieved (37.9% against 49.2%, respectively). The use of e-SISTAFE to prepare the first semester Budget Execution Report allowed for greater clarity with regard to execution, but there is

still need for clarity on the actions required to be carried out in the second half of the year to meet the PAF target.

- The indicator on **budget execution rate for recurrent expenditure at provincial level in current year, higher than in previous year**, was achieved during the first semester.
- **Progress made in the SISTAFE reform is, in general, according to plan.** The PAF indicator on the effective implementation of direct budget execution at the ministries of Finance, Planning and Development, Education, Agriculture, Health and Public Works at central and provincial level, was achieved at the end of July. UTRAFE believes that, according to the targets established in its Action Plan, it will achieve the additional roll-out to a total of 22 Ministries and State Bodies by the end of the year.
- The prospects of meeting the PAF indicator targets for the **tax reform** area, namely a revenue collection target of 14.8% of GDP and the preparation and approval of the Information Technology Development Plan, **appear to be feasible.** A concern to be highlighted is the delay in the process of establishing the Central Revenue Authority and consequent delays in strategic decision and implementation processes, which could affect the accomplishment of the institutional development plans for 2006.
- The target for the **procurement** indicator, namely to create, budget and operate a Functional Supervision Unit for Procurement (UFSA) can be met, but it requires close cooperation between DNPE-UFSA, UTRESP and UTRAFE for its implementation with no further delays on decisions on the UFSA's operation.
- The target for **internal audit** of 20% of districts and municipalities audited by the IGF in 2006 should be achieved. Due to substantial delays in the Internal Control Subsystem, compared to other components of the SISTAFE reform, it is important to prioritise additional efforts to encourage the current operation of this subsystem.
- In that which concerns external audit, performance in terms of financial audits is improving and consequently the target of 70 financial audit reports carried out by the Administrative Tribunal in 2006 will be easily met.

In general, it can be said that the progress in implementing the main reforms is on track, although significant challenges still remain. Apart from the PAF matrix, annexed to the BdPES, the text itself still fails to address the SISTAFE, procurement reform, revenue administration reform and internal audit areas.

As to the areas of special attention underlined during the 2006 annual review, the following can be mentioned:

There was an **increase** in the value of **programmed external projects**, but their rate of execution still needs to be improved. Additionally, significant **progress was made in the use of the MTFE**, which was approved by the Council of Ministers.

- A review was made and discussions initiated on the **fiscal impact of the mineral resources projects**, which should act as a catalyst for broader discussions on the policy, management and coordination of the mobilisation of revenue in the various natural resource exploitation sectors. However, this process is only just beginning, and the main challenges of inter-sectorial coordination should be discussed.
- The problem of the **State's accumulation of debts** to contractors, linked to the payment of VAT and counterpart funds, has not yet been resolved. An assessment of the magnitude of the problem is being carried out for the roads sector, and discussions on possible solutions are underway at the Ministry of Finance. It is noted that it is essential to have a greater coordination and dialogue between the directorates of Budget and Taxes, as well

as on possible implications for external financing institutions. More attention will be given to this issue after the Mid-Year Review.

- The Joint Review recommended that special attention should be paid to the budget allocations for health and education in 2006. This would have to be analysed within the context of (i) the implications of bringing additional external funds on-budget; (ii) the continuing need for significant increase in frontline workers in both sectors. This has still not been followed-up.

Good Governance Pillar

Introduction

Generally, a positive dynamic was noted in the area of decentralisation, characterised by tangible decisions and actions. This trend confirms the conclusions reached at the last joint review. Public Sector Reform did not present notable achievements, but it is important to consider that a new dynamic is being instated through the creation of the new National Civil Service Authority, which reports directly to the President of the Republic, and through the preparation of Phase II of the Public Sector Reform Programme.

The review of the governance pillar was not concluded within the established time limit for several reasons. In general, the quality of dialogue continues to be lower than required for this type of process, and this is of particular concern. There are also difficulties in identifying indicators perceived as being objective and sufficiently comprehensive.

Decentralisation

Progress relating to the PAF 2006 indicators in the decentralisation area is positive. The Administrative Tribunal (TA) performed district audits in the Province of Sofala, and expects to continue the activity in three more provinces up to the end of the year. This indicates that the district audit target for 2006 will be exceeded. The TA has not yet performed the audits on municipalities. Meanwhile, IGF and IAE inspections are being implemented, and have already covered fifteen municipalities, representing a 45% coverage, i.e., more than double the foreseen target. It is expected that a total of 27 municipalities (approximately 80% of the total number of municipalities) will have been inspected by the end of the year. It is recommended that the inspections of municipalities be complemented by audits performed by the Administrative Tribunal.

Allocations to the districts, within the scope of the Local Initiative Investment Budget (OIIL), were made in a uniform manner during 2006. Therefore, criteria were defined and adopted for distribution in the 2007 OIIL. Furthermore, the overall value of the OIIL for 2006 increased by approximately 25%. However, the guidelines on the use and application of the OIIL for 2006 were issued late, resulting in execution delays. As far as allocations to municipalities are concerned, it is important to mention that these represented approximately 5% of the State Budget. This value covers two items, namely the Municipal Compensation Fund (FCA) and the Local Initiative Investment Fund (FIIL), representing a satisfactory increase in transfers compared to the previous year. However, the role of SISTAFE within the scope of municipal management still needs to be clarified.

The consultancy report presenting options for the formulation of the National Decentralisation Policy and Strategy was prepared in March 2006. The process of widespread consultations at central and provincial level on the consultancy report will begin soon, and it is expected that

this process will be finalised by the end of the year. Still within this area, progress was made with the preparation of the National Decentralised Planning and Finance Programme (PPFD).

Public Sector Reform

Significant change and encouraging developments were made in this area since the last joint review. The establishment of the National Civil Service Authority (ANFP), and the preparation of the public sector reform programme (phase 2), with a more restricted scope and more directed at the impact on citizens' lives, were developments received with optimism, seeing as these address previous concerns relating to leadership and programme content.

As far as performance is concerned, and taking into consideration the agreed indicators, the situation continues to raise concern. Indicators 39 and 40, carried forward from 2005, will be partially accomplished in 2006. However, clear options and realistic steps (installation of Civil Servant Register and the holding of a civil servant census, and projection tests) aimed at approving and implementing the salary reform have now been defined. It is also recommended that the targets established for these two areas in subsequent years be more realistic. With regard to the restructuring of the 6 ministries mentioned, progress within each of them is varying. Due to the lack of an agreed methodology to measure the implementation of the restructuring activities, it is difficult to determine up to what point this is in line with these indicators.

Justice

Progress was made with regard to the formulation of the Vision document and a simultaneous updating of the planning instruments, namely, the Integrated Strategic Plan and the respective Operational Plan. The State Budget for 2007 will be more harmonised and rational in the area of justice, as a result of inter-institutional participation in the planning exercise carried out with the Sector's institutions and the MPD, at the beginning of the second semester. With regard to the implementation of the Inspections Plan, 4 inspections were carried out by the Office of the Attorney General, 2 of which were ordinary inspections in the city of Maputo and Province of Maputo, and 2 were inquiries carried out in Moma and Montepuez. There is one ordinary inspection underway in Cabo Delgado. With regard to judicial inspections, 4 were carried out in the city of Maputo and the analysis and processing of reports from previous inspections was carried out, with a plan expected to be concluded by the end of the year. With regard to the creation of the National Human Rights Commission, the project was submitted to the Council of Ministers. The draft law on domestic violence was submitted to Parliament. The relevant aspects of the draft law appear in the Criminal Code project.

The need to improve the quality and availability of statistical data on the Sector, particularly those measuring the results of the indicators, is still a major concern. The structure of the Justice Sector chapter in the BdPES improved substantially compared to previous years, with the reports being prepared following the PES structure. While the Balance is in harmony with the PES, its content is less precise. It was not possible to produce technical notes for the Justice sector before the end of the Mid-Year Review, but it was agreed that these would be finalised within one month.

In the Joint Review 2006, two of the five indicators were considered to have been met, one partially met and the other not met. Over the last eight months progress has been made in two indicators, namely the formulation of the Vision and the updating of the integrated strategic plan and the operational plan (PEI and POPEI), as well as on the indicator on the consolidation of a monitoring and evaluation system, using the POPEI. Neither of these indicators was achieved in 2005. Progress was made with regard to the indicator on legislative

reform, with attention being drawn to the approval of the Civil Code and the submission to parliament of the Criminal Code, and the Organic Law of the Judicial Courts, including the commercial sections. The Community Courts' Organic Law is currently being examined. In order to measure the complexity of the indicator on the prison legislation reform before the next joint review, the Sector will specify which legal instruments are contemplated by the Prison Legislation and their respective status. Two of the indicators that reflect the processing of cases, namely the increase in the number of judicial sentences and the percentage of prisoners awaiting trial, are reported in the Balanço do PES, but the Sector did not make statistical data available on prisons and courts to the partners.

The indicator relating to the survey on corruption within the Justice system was partially met, with the target expected to be achieved by the end of 2006. The reports on cross-cutting issues have not been included. According to the Budget Execution Report (January-June 2006), investment execution percentages stand at 34% for the judicial system and 52% for the Ministry of the Interior. Taking into consideration the 50% reduction in the investment budget for the Justice sector, compared to 2005 (see MYR 2005 report), it is necessary to find out the causes for the limited and low execution in investments.

Corruption

There has been no progress made in the implementation of the Government's Anti-Corruption Strategy. However, the study on corruption within the judiciary has already been elaborated, and should result in the definition of the National Judiciary Integrity Action Plan. In relation to the reported cases of corruption, no information on their clarification was made available by the Central Office for the Fight against Corruption. It is hoped that the creation of the National Public Service Authority will result in a strengthening of the Country's intervention capacity within the field of the prevention and fight against corruption.

Human Capital Pillar

Introduction

The assessment of performance in the Human Capital pillar sectors for the first semester shows mixed results in terms of progress towards achieving the PAF indicator targets for 2006. Performance in **health** on institutional deliveries and on HIV/AIDS antiretroviral therapy (ART) coverage, and in **water** on rural water supply and sanitation appears to be significantly off-track. Both of these sectors (as well as **social action**) also face challenges in terms of the quality and reliability of data. More positive results have been recorded by **education** on the enrolment targets, by **health** for vaccination coverage and overall utilisation rates and by **water** for urban sanitation.

Institutional and capacity bottlenecks need to be addressed much more urgently and systematically across all of these service delivery sectors if less than satisfactory performance is to be avoided in the future. In particular, there are a number of common factors that appear to be inhibiting higher levels of budget execution, most notably delays in the release of funds and with the procedures for reallocations. Greater clarity is also needed around the processes of decentralised planning and budgeting. Better human resource management, to ensure that core administrative functions can be properly carried out appears to be another common priority. In water specifically there has been insufficient progress in addressing the issues of debt, VAT and counterpart funding despite efforts undertaken by the sector.

More positively, all four sectors are seeing progress in reforming external assistance to their sectors: in education the FASE mechanism was revised to align it more closely to government procedures and in health the PROSAUDE MoU will be updated in the same way this year. In both the social action and water sectors there are moves towards establishing a more harmonised approach for external support.

The indicators selected for the PAF for the next few years are consistent with the PARPA II strategic matrix and there have been no changes made to the goals that were set during the finalisation of this document by the working groups in July 2006 (see annexed matrix).

The primary education completion rate for 2005 was 33.7% for all children (against a target of 34%) and 27.2% for girls (against a target of 28%). Despite the targets not having been met, this was only by a marginal figure which is not statistically significant. Given that this indicator (for girls) will remain on the PAF matrix in future years, it is important to clarify that the data on completion rates will never be available in March-April, in time for the Joint Review, and for this reason the data on completion rates to be evaluated in the Joint Review will relate to year n-2. The data on the completion rate for year n-1 will only be available for evaluation during the Mid-Year Review in August/September.

Education

The targets appearing in the PAF matrix for the education area were, in general, met. The net schooling rate for primary education (EP) achieved in 2006 was 90.3% for both sexes (the target was 85%) and 87.5% for girls (the target was 82%). The gross EP completion rate in 2005 was 33.7% for both sexes (against a target of 34%) and 27.2% for girls (against a target of 28%), which means that the target for girls was not met, albeit by a very short margin. The data on EP1 completion rates for 2005 were not yet available during the Joint Review in April. These data have already been provided, and they show that the PAF 2005 completion rate target for EP1, which was set at 48%, was met, having reached 58%. Likewise, the target of 41%, set for girls was exceeded, having reached 49.5%.

The sector executed 39% of its budget. The expenditure execution rate was 46.6%, while the current expenditure execution rate, excluding salaries, was 38% and the investment expenditure was only 22.6%, due to delays in the investment budget redistribution process, requested by the sector at the beginning of the year, and in the releasing of funds. The sector showed concern with regard to the substantial reduction of the internal component in the investment budget, which dropped by 46.4% between 2005 and 2006, having been 27% for the central budget and 56% for the provincial budget.

The SISTAFE continues to show itself as a good experience seeing as the provinces have, in general, reported an improvement in the disbursement of State Budget funds. The fast expansion of secondary education is beginning to result in the use of primary schools (something which began to be seen in 2006, with the introduction of grade 8 in some primary schools) and, in particular, of primary school teachers, reducing the resources available for primary education.

The memorandum of understanding on the FASE, which will permit both an increase in external funding to the sector as well in its predictability, was signed between the MEC and the cooperation partners. The credit agreement between the MEC and the Partners for the funding of the Vocational Education Reform Programme (PIREP) was also signed. The approval of the Strategic Education and Culture Plan (PEEC), in June this year, was also an

important step toward ensuring a coherent development of the sector. This fact contributed toward creating a credible financial framework which will permit the partners' intervention to be directed to address the sector's priority areas.

Health

There were improvements in the sector in terms of expansion and access to services, as well as a slight improvement in budget execution. However, in some aspects, such as malnutrition, the population's state of health tends to be worsening. With the exception of the indicator for coverage of institutional deliveries, the vaccination coverage and consultations per inhabitant indicators progressed satisfactorily during the first semester. The coverage for institutional deliveries was 45.8% (annual target 2006: 51%), while for dptheb3 vaccination in infants 0-11 months it was 92% (annual target 2006: 95%), and there were 1.2 consultations per inhabitant (annual target 2006: 0.94).

However, the data should be analysed with caution, due to their weak reliability. The low coverage of institutional deliveries needs a more detailed examination, considering that the sector has been increasing the offer of comprehensive and essential obstetric care, and more waiting-houses for pregnant women have been built near the health units. A specific study could be carried out to define the operational measures needed to improve the offer and the use of these services.

With regard to HIV/AIDS, it is possible that the process for accelerating ART may not take place as projected due to the slowness in the process of adapting the infrastructures and staff capacity building, which depends partly on the pace of contracting NGOs, an activity that has suffered some delays in its implementation. It is important to have continued collaboration with the partners in order to be able to satisfy the demand for ART and PVT services. The mid-term review of the targets for the STI/HIV/AIDS programme is foreseen for 2007 (for additional details, see report on the "cross-cutting issues").

Budget execution saw a slight improvement compared to the same period in 2005. In the first semester of 2006, global execution was 37.8%, compared to 32.9% in 2005 (source: Ministry of Finance). In absolute terms, execution increased from 1.682.698 million MTn in 2005 to 2.584.431 million MTn in 2006. Efforts should be made in the second semester to continue improving the budget execution, especially in the infrastructure component, which absorbs a considerable amount of the PROSAUDE budget. The information on external funds has been improving, but there are still difficulties in gathering data on the vertical funds.

Water and Sanitation

Urban sanitation is progressing according to the targets, but it is apparently improbable that the targets relating to water supply and sanitation in rural areas will be met, despite various companies having been awarded contracts for drilling boreholes. At present, there is no information available on water supply projects under delegated management in the urban areas. Despite the existence of evidence showing that progress was made in both the management of water resources and international rivers areas, this cannot be properly assessed because documentation on official rendering of accounts does not compare the half-yearly results to the plan. No cross-cutting issues were reported on during the period.

The sector's execution in the first half of 2006 was 17% for investment expenditure and 13% for current expenditure. The factors contributing to this weak investment execution include late State Budget disbursements by treasury (only 1 State Budget disbursement was received during the semester) and by the funding agencies, a continued tendency of infrastructure

execution being concentrated in the second half of the year, and execution problems specific to some large-scale investment projects.

Social Action

Performance in the various target-group attendance areas is in line with that planned. The results achieved are positive in most of the programmes. The creation of a monitoring and evaluation system, which would allow for improved gathering of information on the activities carried out in the women and social action areas by all government and non-governmental stakeholders, including civil society, continues to be one of the MMAS's priorities. On the other hand, it is also important to highlight that the lack of baseline data for the various target-groups makes it difficult to measure the impact of the activities carried out at national level, particularly in that which concerns the establishment of the relationship between the number of people assisted and the existing needs at national level.

Economic Development Pillar

Introduction

During the last semester some actions were taken aimed at improving the development of the productive sector. The main developments, which will impact positively on the business environment, relate to: (i) the launching of the electronic company registration service (which will allow for at least a 90-day reduction in the time taken to start a business); (ii) the implementation of one-stop shops (although they still lack the analysis capacity and decision-making power to provide them with the desired efficiency); and (iii) the launching of the Government's portal. Also highlighted is the approval of the Labour Law Proposal, by the Council of Ministers, which will permit a slight improvement in the Country's ranking in the World Bank's "Doing Business", with regard to labour legislation.

However, some aspects continue to impact negatively on the productive sector's performance, namely: (i) delays in the reimbursement of VAT; (ii) finance sector inflexibility in granting credits in foreign currency, within the framework of the Bank of Mozambique's Notice 5 (which has made the cost of financing more expensive); and (iii) increase in the cost and time taken in the import process, as a result of the introduction of the Bank of Mozambique's Notice 2. It is expected that appropriate legislation will be approved, in 2007, which will enable the Insurance General Inspection (IGS) to assume its pension fund supervision responsibility. With regard to the energy sector, the Ministry of Energy requested an adjustment of the baseline and targets of the "expansion of energy services for household use" objective, set out in the PARPA matrix.

Agriculture

The performance achieved in agriculture was mixed. Of the four indicators, two had a level of achievement above 70%, namely: number of assisted farmers and percentage of land access applications dealt with within the 90-day time limit. The other two indicators remain below the 40% mark. Budget execution was only 30% due to constraints linked to the new procurement rules and to the changes within the scope of the reform of the State's financial system. The 2007 PES is much more comprehensive and includes the main results intended to be achieved by MINAG, in line with the PARPA.

Three indicators were defined for the PAF, with their respective targets for 2007-2009. MINAG's partners expressed their concern with regard to the inclusion of the 2006/2007 Agricultural Intensification and Diversification Programme. However MINAG undertook to

establish the implementation mechanisms, including those relating to the financing of the respective activities.

Energy

Budget execution for the first quarter of 2006 for the Ministry of Energy is in line with the plan. External aid has not been included in the general budget, and therefore it is irrelevant to comment on progress based on budget execution, until such a time as consistent reporting and planning systems are in place.

| | 2005 Basis | 2006 | 2007 | 2008 | 2009 |
|----------------|---------------|--------|--------|--------|--------|
| Previous value | 222000 | 200000 | 400000 | 600000 | 800000 |
| Present value | 200000 | 350000 | 350000 | 350000 | 350000 |

It is suggested that the Balanço do PES should report the number of people linked to the network annually, in accordance with the PARPA's strategic matrix. The operationalisation of the energy market regulatory body, National Council for Electricity (CNELEC), showed some progress. The Ministry of Energy issued instructions to CNELEC, indicating the course to follow and what to focus on, which included public consultations and monitoring the performance of the contract with EDM. EDM's challenge in relation to current debt, as well as its future weight, was discussed with all parties. EDM submitted a proposal containing possible solutions to the Ministry of Finance, for consideration and decision.

Roads

In the roads sector, the rehabilitation and maintenance works on the main, secondary and tertiary roads, as well as periodic and routine maintenance, continued according to projections during the first half of 2006, although the budget execution report did not include information on the second quarter of 2006. Moreover, the Government indicated that, by 2010, it wants all external support to the sector to be channelled through sector budget support. The Government's ever-increasing leadership in adjusting the sector's partners must also be highlighted.

The growth in fuel levies increased the sector's financial capacity. However, the fact that part of the resources is being used to pay for rehabilitations and VAT, instead of periodic and routine maintenance, is a cause for concern. Thus, it is important for the National Roads Authority (ANE) to continue, in 2007, to improve its internal capacity as well to cover the financial gap in relation to the maintenance of the roads network. In order to do this, it may be necessary to reallocate funds to the maintenance area initially intended for the investment area.

Cross-cutting issues

I – Performance evaluation, taking the PES 2006/ PAF Indicators into consideration

In the 2006 PAF matrix, only two of the eight cross-cutting issues are measured by performance indicators (3 indicators for HIV/AIDS and 1 indicator for Gender). Below is an overview of performance at mid-year against these indicators:

1- PAF Indicator # 7: Percentage (and number) of HIV+ pregnant women receiving complete prophylaxis in the last 12 months to reduce the risk of vertical transmission from mother to child

Target for 2006: 10% (16,000)

Achievements in the first semester: 8,728 HIV + pregnant women and 5,500 of their neonates received prophylaxis for the prevention of vertical transmission (PVT).

Comment: inconsistencies in terms of achievements against targets are noted in the BdPES.

2- PAF Indicator # 8: Percentage (and number) of persons with advanced HIV+ infection receiving combined antiretroviral therapy in line with national protocols (disaggregated by sex and age group (0 - 14, 15 - 24, 25+)).

Target for 2006: 15% (40,000)

Achievements in the first semester: 27,000 people were receiving anti-retroviral therapy (ART) at mid-year, reaching about 68% of the 2006 PES annual target. Among people receiving ART, about 8.6% were children below 15 years of age (or about 2,300 children), 9.5% were children and young people between 15 and 24 years of age, and 81.9% were adults over the age of 25. Among people on ART, the majority were women (over 59%). Increased access to ART reflects the expansion of the network of sites offering ART, which expanded from 12 in 2004 to 34 in 2005 and to 49 as at 30 June 2006.

Comment: The strategic matrix in the BdPES does not provide disaggregated information on the indicator. It was also noted that the PES 2006 target (i.e. 40,000) is not consistent with the PARPA II 2006 Strategic Matrix target (i.e. 57,950). Should the PARPA II target be considered, only 47% of the 2006 target has been met at mid-year.

3- PAF Indicator # 9: Percentage of orphans and vulnerable children (OVC) covered by the Action Plan for OVC who were without access to basic services in 2005, gaining access to at least 3 basic services in the last twelve months (disaggregated by sex and district).

Target for 2006: 5% point increase (or 15% of OVC with access to basic services in 2006, as the baseline was 10% in 2005)

Achievements in the first semester: 16% (193,654). Under the Social Action section of the BdPES, it is reported that 29,654 OVC were reached during the first half of the year with at least three basic services (or 2.5% of the target of 1.2 million set out in the OVC Action Plan for the year 2006). In addition, through support provided to Civil Society Organisations by various actors, more than 164,000 OVC were reached, corresponding to 13.6% of the OVC Action Plan target for 2006. Considering all available information sources, the 2006 PES target was therefore exceeded.

Comment: There is no data reported in the Strategic Matrix of the BdPES.

4- PAF Indicator # 14: Approval and implementation of the Gender Policy and the Gender Implementation Strategy

Target for 2006: Strategy approved and implementation initiated;

Achievements in the first semester: The Strategy was approved by the Council of Ministers and approval by the Parliament is pending.

II – Noteworthy progress in the cross-cutting issues

1- HIV/AIDS

- The national response to the AIDS pandemic continues to accelerate. Important progress has been made at mid-year towards reaching the 2006 PES targets (see above).
- Increased political commitment: Presidential initiative and the National Assembly initiative about the role of Parliamentarians in implementing the Plan of Action for OVC.
- Grant Management System (GMS). The volume of sub-grants provided by the National Aids Council (CNCS) Secretariat to organisations has significantly increased, particularly with regard to funds for the public sector. The Government has approved the contracting of a Grant Management Agent, which will begin operations in October.
- Increase in the harmonisation and alignment of development partners. A revised Memorandum of Understanding, governing the relationship between the CNCS Secretariat and its Common Fund partners, which now includes the World Bank, was signed.

2- Food Security and Nutrition

- The Food Security and Nutrition situation improved considerably after two consecutive years of extreme food and nutritional insecurity due to drought.
- The results of the agricultural season were better than the previous year and in some provinces it represented the best production for the last five years, with food reserves being higher than those for the same period in 2005. This improvement was due to satisfactory rain distribution, promotion of programmes for agricultural seed and equipment (inputs) fairs.
- The markets are fairly well-supplied with agricultural products owing to good harvests in the current agricultural season, thereby resulting in price stabilisation, which is a positive factor that contributed to an improvement in households' access to food.

3- Gender

- The Gender Strategy was approved by the Council of Ministers, and approval by the Parliament is pending.
- Gender issues are better articulated in the PARPA II, particularly in the analysis of poverty determinants and in the Human Capital and Cross-Cutting pillars.

4- Environment

- The **Territorial Planning and Zoning Law** and the Environmental Strategy for Sustainable Development (EADS), while not yet approved, have been evaluated and approved by the National Sustainable Development Board.
- The draft of the **1st Environmental Statistics Compendium**, has been studied by environmental data producers and users, and is now in the final stages before publication.
- **9 district plans are in their conclusion stage**, and it is hoped that they will be approved at the beginning of 2007.

5- Rural Development

- The document on the formulation of the Rural Development Plan (EDR) was concluded. The EDR is the instrument that the Government will use to coordinate and promote the actions linked to rural development in the country.
- Several activities were embarked on in the area of creating a favourable environment to carry out rural finance activities and to strengthen market links, with a view to achieving the objective of **increasing competitiveness and building up rural economy**, namely:

the process for transferring the management of Local Economic Development Agencies (ADELs) from the Ministry of State Administration (MAE) to the Ministry of Planning and Development (MPD)/ National Directorate of Planning and Rural Development (DNPDR) was initiated, and the Unit for Support to Rural Finance Policies at the DNPDR was created.

III – Challenges and Next Steps

1- HIV/AIDS

- **The national response is still not commensurate** with the need due to stretched human resources. To date, only 10% of people in need of ART receive treatment and less than 5% of pregnant women living with HIV or AIDS receive the full course of prophylaxis for the prevention of mother-to-child transmission. The limited coverage of PVT means that about 30,000 children will be born with HIV in 2006 (more than half of those will die before reaching age 2). There is a need for increased human and financial resources in order to address human resource capacity constraints and meet the PEN II and PARPA II targets. It is also particularly critical to put in place alternative delivery options for expanding PVT and ART services to meet existing targets.
- **More flexibility is required for funding recurrent cost through external assistance.** Current budgets for salaries and goods and services are straining under the conflict between the need to finance the operation of expanding systems and the need to respect the fiscal constraints required to maintain macroeconomic stability.
- **Increased dependence on external funds and decreasing internal resource allocation:** CNCS is heavily dependent on external financing and internal resource allocation to the CNCS Secretariat is continuously decreasing, both in absolute and proportional terms. In 2004, internal allocations to the CNCS Secretariat represented 18% of the CNCS total budget. This proportion decreased to 15% in 2005 and to 9% in 2006. The allocation of adequate internal resources for Government Institutions and the CNCS Secretariat at national and provincial level is needed to signal political commitment to the national response and ensure sustainability.
- **One Coordinating Body.** There continues to be limited recognition by many sectors, at both the national and provincial levels, of the role of CNCS as the “one” coordinating authority for HIV/AIDS. The role of the CNCS and its Secretariat needs to be recognised, reaffirmed and strengthened at all levels.
- **Efficiency of the Grant Management System (GMS).** Delays in implementing the simplified procedures coupled with limited civil society capacity continue to challenge the efficiency of the GMS. It is hoped that the outsourcing of the GMS to an agent will address this situation and allow CNCS to focus on its core mandate of coordinating the national response.
- **Continued lack of consistency in ART targets.** There continues to be some inconsistency between ART-related targets in key Government planning documents.
- **Lack of a comprehensive financial tracking system for HIV/AIDS allocations and expenditures.** The 2006 BdPES and the mid-year BER only refer to the financial resources allocated to the CNCS Secretariat, which represent only 1.3% of the total State Budget for 2006. The current State Budget and classifications still do not provide an adequately comprehensive picture of government and other sources of funding for the fight against AIDS. It is essential to ensure that large scale HIV/AIDS initiatives, such as PEPFAR, are on-plan, on-budget and, to the extent possible, on-treasury (for example, PEPFAR contributed to 60% of the performance recorded for the PES OVC-related indicator during the first half of 2006).

- **Epidemiological surveillance and research.** There is an urgent need to implement the “ronda epidemilógica” in order to update trends in HIV prevalence in the country.

2- Food Security and Nutrition

- **Pockets of food insecurity may emerge** due to exhaustion of food reserves, estimated to last between 3 to 5 months, especially in the arid and semi-arid areas.
- Need to improve food security and the nutritional status of people living with HIV/AIDS (PLWHA) at community level.
- Continued need to strengthen **SETSAN**'s institutional capacity at national and provincial level (monitoring, collecting, managing, capturing and analysing information, and also including FSN in the PEDDs). The review of the National FSN Strategy will begin during the second half of the year. The main challenge will be to operationalise the strategy and ensure that its implementation is adequately resourced.

3- Gender

- Improve the disaggregations by gender of the data presented in the BdPES and in the budget execution.
- **Strengthen measures aimed at keeping girls in schools:** fight against sexual harassment/abuse, absenteeism, violence, and expand the School-Bursary Programme and school snacks, among others.
- Improve the coverage and quality of maternal services.
- Scale-up the supply of anti-retroviral treatment to HIV positive pregnant women and to the infected population in general, as well as expand the services for the prevention and mitigation of the HIV/AIDS impact.
- Develop, implement and disseminate extensively affirmative actions aimed at ensuring gender balance in employment opportunities.
- Institutionalise the Gender Units.
- Monitor gender progress with a view to correcting inequalities.
- The Ministry for Women and Social Action (MMAS) presents a weak budget execution in the investments component.

Annex 2 Minutes of the PAF Coordinating Group meeting (PAF CoG)

September 11, 2006 - Hotel Cardoso

A total of 68 people participated in the meeting, including the pillar leaders, heads of working groups and representatives from the Government and Partners at other levels. The meeting was chaired by the MPD's National Director of Planning.

Main Objectives of the meeting:

- To agree on the final targets for the PAF 2007 indicators and for the partners' performance matrix.
- To carry out a brief evaluation of the balance reports for the first semester presented by the pillar leaders and to discuss the issues raised (see annex).

1. Public Finance Management/ Budget execution

After the brief presentation of the pillar report, the following considerations were made and explanations given on the issues put forward for discussion:

- Indicator of 65% of expenditure executed in the priority areas: the indicator was not achieved (present: 61.9%), partly due to the fact that part of the budget allocated to the districts, essentially for expenditure in priority sectors, showed a low level of execution, since it was the first year of execution at that level. However, it is possible to have a stronger liaison with the districts during the second semester, with the purpose of improving the execution and recovering the level. It should also be taken into consideration that the low level of execution after the first semester, also seen in the investment component for the sectors in general, normally improves during the second semester.
- Indicator on the current expenditure execution rate for goods and services in the priority areas: this indicator was also not achieved during the first semester, but the Government has taken note of the problem so as to improve the situation during the second semester.
- Delays in the establishment of the Central Revenue Authority (ATM): The ATM was created at the beginning of the year, and the Government opted to prepare all of the instruments necessary for its effective implementation (including the consolidation of the DGI – Directorate General of Revenue's establishment), before appointing its president, which should take place in September or October of the current year.
- Substantial delays in the Internal Control System (SCI): The SCI is a relatively new component, built from scratch, and the process for its institutionalisation needs to be speeded up.
- Problem of VAT-associated debts and project counterpart funds: The FAD/IMF mission also discussed this concern. There appears to be willingness to finance (by donors) an audit aimed at determining the size of the accumulated debt. Possible solutions to this sensitive problem should be discussed.

On the PAF 2007 targets:

- Internal audit indicator: the target agreed for 2007 has changed to 30% of bodies at central and provincial level with fully operational internal control units. The indicative targets for 2008 and 2009 are of 35% additional bodies every year. The reason for this was the change in the calculation basis for this target. The original global number was 336 units, including all levels. It changed to 83 units, including the central and provincial levels and

municipalities (therefore 30% of 83 units for 2007). The basic principle is the operationalisation of the existing institutions with appropriate inspection staff.

- Furthermore, it was proposed that the total number of units to be considered be aligned with the global number for the SISTAFE (292 UGEs) and internal audit (83 OCIs) indicators.
- Targets for the revenue collected indicator: the indicator was agreed and the targets should be confirmed by the Government today. The value of the target for 2007 will be different from the value appearing in the PARPA, due to a review of the definition of revenue collected, to be included in this indicator. The corresponding technical note should reflect this correction.

2. Cross-cutting Issues

The Working Groups under the Cross-Cutting Pillar are functioning well. The Pillar leader walked the team through the report, highlighting: (1) progress made at mid-year vis-à-vis the 2006 QAD targets; (2) the areas of progress; and (3) the areas requiring special attention.

With regards to the 2006 PAF targets: While progress has been made towards the HIV/AIDS related targets for PVT and ART, interventions need to significantly accelerate during the second half of the year should these targets be met. Regarding the OVC-related target, the target at mid-year has already been exceeded. Finally, the gender-related target is on track, with the Gender Policy already approved by the Council of Ministers and approval by the Parliament pending.

Regarding the areas that recorded progress:

- HIV/AIDS: the national response to the HIV/AIDS pandemic continues to accelerate. In the first semester, important progress was made with a view to achieving the PES 2006 targets: increased political commitment; significantly increased volume of sub-funds provided by the CNCS Secretariat, particularly with regard to funds for the public sector; and better harmonisation and alignment of development partners.
- Food Security and Nutrition: The Food Security and Nutrition situation improved considerably after two consecutive years of extreme food and nutritional insecurity due to drought; the results of the agricultural season were better; and the markets are fairly well-supplied with agricultural products.
- Gender: The Gender Policy and Implementation Strategy were approved by the Council of Ministers and Gender issues are better expressed in the PARPA II.
- Environment: The Territorial Planning and Zoning Law and the Environmental Strategy for Sustainable Development (EADS) were evaluated and approved by the National Sustainable Development Board; nine district plans are in their conclusion stage, and it is hoped that they will be approved at the beginning of 2007.
- Rural Development: The formulation of the Rural Development Strategy (EDR) was concluded.

In relation to the areas that require special attention:

- The national response is still not commensurate with the need due to stretched human resources. To date, only 10% of people in need of ART receive treatment and less than 5% of pregnant women living with HIV or AIDS receive the full course of prophylaxis for the prevention of mother-to-child transmission.
- There continues to be limited recognition in many sectors, both at national and provincial levels, of the CNCS's role as the "one" coordinating authority for HIV/AIDS. The role of the CNCS and its Secretariat needs to be recognised, reaffirmed and strengthened at all levels.

- The Ministry for Women and Social Action (MMAS) presents a weak budget execution in the investments component.

3. Good Governance

Concern was shown in this area with regard to the way in which the pillar is working. It was proposed that the working groups should find better ways of working in future. There is an urgent need to improve not only dialogue between the parties involved, but also the content, in order to achieve better results. The Justice working group was advised to comply with the established time limits in future reviews, in order to avoid discussions within the pillar that should have been held prior to the pillars' discussion meeting. During the meeting, two of the indicators for the Justice area were discussed in detail; however, their targets have not yet been defined.

The following points were addressed with regard to the area of decentralisation and public sector reform:

- In that which concerns the PAF 2006 indicators, it is improbable that the targets for the plans to restructure the seven designated ministries and the salary reform will be met. In the case of the seven ministries involved (Health, Education, Agriculture, MAE, MIC, MF and MPD) it was highlighted that progress is at different stages for each one of them. Due to the lack of an agreed methodology to measure the implementation of the restructuring activities, it is difficult to determine the level reached; data on critical services are expected to be collected in 2007. With regard to the salary policy, it was proposed that a database (single register) be established in order to determine the number of employees.
- In the Public Sector Reform, the targets for the first indicator (% of budget transferred to the provinces, districts and municipalities) will be defined by the MPD and MF. It was agreed that the provincial level should continue to be included in the indicator, seeing as this is in line with the OLE law, which also includes the provinces.

The following points were addressed in the Justice, Legality and Public Order Reform:

- With regard to the first pending indicator (average number of cases judged in court/year), it was mentioned that the detailed technical note should indicate that the sector has undertaken to provide information on the judges' performance at provincial level. The indicator for 2007 will be the number of cases judged per year.
- In the second indicator, the wording was changed from “% of prisoners awaiting legalisation of formal incarceration” to “% of prisoners awaiting trial in prison”, with the following targets: for 2007 – 35%; for 2008 and 2009 – 30%. Reference was made to the fact that it has always been difficult to gather concrete data to measure this indicator. The head of the pillar stated that this has not been a problem since 2005.
- The PAPs accepted the changes even before having had the opportunity to discuss or agree to them before the meeting, in order to permit work to continue, but requested, however, that this process be discussed at political level. It was once again stressed that the joint group should meet regularly before the final meeting, in order to reach common agreement, so that none of the parties make unilateral decisions on content. It was also agreed that the working group would meet immediately following the presentation in order to agree on the formulation and the targets for these indicators.
- Still on this topic, the issue of corruption was raised, with the lack of follow-up of the anti-corruption strategy, adopted in the beginning of 2006, being noted. The GoM confirmed that the strategy has already been approved, but that the action plan still had to be approved.
- The issue of the Value for Money Audit on the Justice sector was also raised. After high level political discussions, it was agreed that the justice sector audit would be performed

over two years (2006-2007). The GoM and the PAPs agreed that the value for money audit in 2006 should assess only the justice sector, with the case management analysis being left to be carried out in 2007. A draft of the terms of reference for this audit has already been prepared. Efforts should be made to begin the task immediately after the MYR, in order to obtain a final product for the 2007 Joint Review.

4. Human Capital

There were no significant alterations during the discussions in the PAFCoG, merely some clarifications with regard to the case of the Education and Social Action sectors. All of the targets for 2007 were confirmed by the sectors comprising the pillar.

- A new version of the pillar, in which the introduction appears with five paragraphs to provide a more balanced summary to reflect the mixed performance in achieving the PAF 2006 indicators, was presented.
- There was a change in the target for the Social Action area for 2007 (120 437 children, elderly, handicapped, and female heads of households benefiting from social protection programmes), and it must be said that this target is far below the target base presented for 2006, which was linked to the programme execution budget; the target should be updated in accordance with the sector's real achievements for 2007. This means that the previous base did not correspond to the resources allocated to the sector, and that this new information was updated based on the resources allocated to the sector.

5. Economic Development

In general, progress is satisfactory and there are optimistic indications that the established targets will be met. However, there are some areas of concern:

- The indicator relating to the "number of days taken to start a business" depends on the approval of the draft law by Parliament.
- It is possible that the indicator relating to the "number of new hectares (ha) under irrigation rehabilitated using public funds and placed under beneficiaries' management" may not be achieved this year. Due to the central role of the irrigation systems in increasing agricultural production and productivity, this indicator is crucial to the success of the fight against poverty.
- EDM's challenge in relation to current debt with the State, as well as its future weight, is of concern. EDM submitted a proposal containing possible solutions to the Ministry of Finance, for consideration and decision. EDM submitted a proposal containing possible solutions to the Ministry of Finance, for consideration and decision.

Partner Performance Matrix

This matrix has an aggregated component and an individual one. The GoM received this matrix readily, believing that in this way it can follow-up and assess the PAPs' performance. The GoM also asked to be involved in the preparation of future PAP matrices.

Closing of the meeting

The National Director of Planning thanked the participants for their presence at the meeting and asked the groups and pillar leaders to comply with the time limits established for submitting reports, in order to allow the work to be concluded on time.