



**REPUBLIC OF MOZAMBIQUE**

**PROGRAMME AID PARTNERS**

***JOINT REVIEW 2007***  
***AIDE-MÉMOIRE***

**30 April 2007**

## I INTRODUCTION & CONTEXT

1. On 30 April 2007, the **Government of Mozambique (GoM) and the Programme Aid Partners (PAPs)**<sup>1</sup> concluded the **Annual Joint Review** of the Government's implementation of the Action Plan for the Reduction of Absolute Poverty (PARPA) and of the performance of the PAPs with respect to the efficiency of external support. The review assessed GoM and PAPs performance over 2006 based on the agreed Performance Assessment Frameworks (PAF) and identified issues that require special attention in 2007. The review was based on Government plans and reports, as reflected in the PARPA II, the Economic and Social Plan (PES), the Budget (OE), the Government reports on the Execution of the Budget (BER) and the Execution of the PES (BdPES), sector reports, syntheses of the meetings of the Poverty Observatory (PO), civil society's Annual Report on Poverty (RAP) and an independent report on the performance of the PAPs.
2. There were **twenty nine working groups**, distributed over four thematic pillars plus cross-cutting issues and the assessment of the PAPs, consisting of representatives of GoM, PAPs, other donors and civil society. These groups completed detailed reviews in their assigned areas; their reports are included as annexes to this Aide-Mémoire.<sup>2</sup> The overall assessment of the performance of GoM and PAPs and the issues requiring special attention are presented in Section II. The detailed assessment of GoM performance in 2006 is presented in Section III. The assessment and recommendations relating to PAPs performance are described in Section IV. Section V outlines issues related to the implementation of the joint Memorandum of Understanding (MoU).
3. The Aide-Mémoire includes the following **annexes**: the 2006 PAF matrix with an assessment of performance in relation to the targets (Annex I); the PAP Performance Assessment Matrix 2006 and performance in relation to its targets (Annex II); the list of 2008 PAF indicators, highlighting those indicators that will be changed at the Mid Year Review 2007 (Annex III); the full working group reports (Annex IV); the time table of the performance audits in the Water and Justice sectors (Annex V); the list of support documents used in the process (Annex VI<sup>3</sup>); and the Terms of Reference of the Joint Review, including the list of pillars and working groups (Annex VII).
4. As agreed in the Terms of Reference, the assessment of the GoM performance took into account the opinions of civil society. The result of the preparatory meetings for the Poverty Observatory and the minutes of the Observatory proper are part of annex VI of this Aide-Mémoire. An International Monetary Fund (IMF) mission visited Mozambique during the first phase of the Joint Review, from 16-28 March.

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<sup>1</sup> African Development Bank, Belgium, Denmark, Canada, the European Commission, Finland, France, Germany, Ireland, Italy, the Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, the United Kingdom and the World Bank. Austria joined the PAPs during the Joint Review. These Programme Aid Partners (PAPs) provide budget support and have signed a Memorandum of Understanding with the Government. The observers include: Japan, the United States, UNDP and the International Monetary Fund.

<sup>2</sup> Six of the working groups have no PAP membership

<sup>3</sup> In the electronic version of this Aide-Mémoire, to be found on [www.pap.org.mz](http://www.pap.org.mz), the documents themselves are part of Annex VI while the printed version only contains the list of these documents.

## II OVERALL ASSESSMENT OF PERFORMANCE IN 2006

5. In accordance with the MoU, an assessment of macro-economic policy and of the performance related to the main economic indicators was made outside the PAF, jointly with the IMF. The Joint Review concluded that **the macro-economic performance continued to be very good**, despite the drought and other external setbacks. In 2006, the economy grew at 8,5 percent (GDP). Inflation was high at the beginning of the year but with a diminishing trend, reaching an accumulated rate in December of 9,4 percent in 2006, while the exchange rates were stable. Some challenges and preoccupations are being observed related to the **growth model and its sustainability**. It is necessary to stimulate overall economic growth, especially in agriculture, with a view to diminish dependence on mega projects, to expand growth in sectors able to create employment and fiscal revenue, and to implement the all-embracing structural reforms more rigorously.
6. The Joint Review included a **global assessment of Public Finance Management (PFM)**. One conclusion was that aggregated fiscal discipline is in general satisfactory, taking also into account the forecast results of the reform of the State Financial and Administrative System (SISTAFE), leading to further improvements in transparency and comprehensiveness of the budget and in information on budget execution. Another conclusion was that the risks of the PFM system have diminished, but continue to be considerable. The control framework remains weak, be it in terms of compliance with the law and control mechanisms, be it in terms of following up on internal and external audit processes. There is a need to ensure a rapid implementation of the Public Finance Management reforms. **Strategic allocation of resources in order to achieve a better regional equity** and a more direct connection with the results forecast in PARPA II, linked to an efficient service provision, is two fundamental objectives deserving more attention.
7. The Joint Review considered the implementation of PARPA II in 2006 to be positive in various areas, in spite of significant variations within the range of PAF targets. Out of the 49 PAF **22 targets were met**, 1 of which with a delay, **4 were not met, 22 were not met but progress was recorded**, while for **1** indicator **the data** to be evaluated were **not available**. There was good progress in public finance management. The rolling out of the e-SISTAFE resulted in a better flow of funds to the line ministries as well as to the provincial and district levels; the budget execution was good, with 65,1% going to the priority sectors; the budget prepared for 2007 reflects the donor support and the own revenue from the sectors far better than in previous years; and the targets defined for the audits carried out by the General Inspectorate of Finance (IGF) and by the Administrative Court (TA) were surpassed. The implementation of the procurement reform also went forward, despite some delays. Although the collection of revenue showed important progress (0,5 percentage point compared to 2005), surpassing the targets for real growth, the PAF-target of 14,8% of GDP was missed with 0,6 percentage point. The Tributary Authority (ATM) was established and new laws on the revenue of mineral and oil exploration were submitted to Parliament. The Joint Review observed the need to increase

public revenue from the commercial exploration of these and other natural resources (hydro-electric energy, forests, land and marine sources).

8. Performance also continued to be good in 2006 with respect to the expansion of service delivery in health and education. In health for example the **provision of Anti Retroviral Virus Therapy (ARVT) increased significantly** (from 27.000 to 44.100) and was extended to 70% of all districts. In education, **access to primary education continued to improve** and the net enrolment rate reached 87%. Service delivery equally improved in the water and social welfare sectors. However, the weak institutional capacity at all levels continues to be worrisome, the more so when taking into account the insufficiency of means to retain human resources in the public sector. There are also concerns about the quality of the provided services, especially in the education sector, where the ratio pupil/teacher continues to be high (above 70/1), contributing to pupils having poor results.
9. The area of **governance** showed a mixed performance. Progress in the implementation of cross cutting reforms planned a long time ago in the public sector continues at a slow pace. The demand for a salary reform appears in many sector reports, taking into account the difficulties to recruit and retain qualified staff, but this PAF target was not met. On the other hand, with respect to decentralization much progress was made in 2006 with the introduction of the Investment Budget for Local Initiatives (OILL), the reorganization and strengthening of the district governments and the deconcentration of human resources management. Nevertheless, various sectors expressed the need for a clarification of the roles and responsibilities at central, provincial and district levels. Concerns were raised about the **lack of progress in municipalization and about the reduced proportion of funds for the municipalities** within the overall State Budget.
10. The **Justice sector** reported a concentration of efforts in the improvement of judicial service delivery, with an increase in the handling of proceedings, especially in the number of verdicts, and a decrease of the number of prisoners awaiting trial. Although not completed yet, there are signs of progress in the formulation of sector policies and strategies, such as the Vision and the Integrated Strategic Plan. However, the delay in the planned legislative reforms remains worrying. This includes the Organic Law of the Judicial Courts, submitted to Parliament, the Law on Community Courts, the Law on the Institute for Judiciary Assistance (IPAJ), the Penal Code and the Law of Criminal Procedure. These reforms are necessary to improve the citizens' access to justice.
11. The **fight against corruption** continues to be a central issue in the dialogue between PAPs and the Government taking into consideration that the trust of the donors is greatly influenced by GoM performance in this area. The Joint Review recognized that important instruments are being put into action to prevent corruption through the different public financial management reforms (e-SISTAFE, procurement, internal control, external audits). The challenge faced by the Government is to ensure that these instruments are applied to guarantee a transparent public management and a follow-up of the weak points and illegalities that are revealed through inspections and audits. Approximately fifty cases of corruption were reportedly investigated by the Central Anti-Corruption Office (GCCC) but there is no information available concerning the results. The Anti-Corruption Strategy was approved by the Government in April 2006, and a beginning is made with the

preparation of action plans for five important and strategic ministries (Justice Sector, Finance, Health, Education and Ministry of Interior). The Joint Review highlighted the importance of these action plans duly being budgeted and integrated in the PES.

12. Performance was mixed with respect to the **business environment**. Positive results in 2006 were the simplification of the registry of new companies and the presentation of the revised Labour Law to Parliament. This law will reduce the costs of firing workers by half, but the proposal continues to be poor with respect to competitiveness and flexibility of the labour market. Once again concerns were raised about the enormous **accumulated public debt**, despite the good progress registered in 2006, in the form of **delayed VAT payments**. The Joint Review also stressed the importance of creating mechanisms for inter-governmental consultations and for consultations between the Government, the private sector and civil society in formulating crucially important policies for the private sector.
13. Intensified efforts to achieve **rural development** are considered necessary. The need was identified for a **better intersectoral coordination** of interventions. Agriculture has a key role to play but agricultural services revealed a poor performance in 2006. With respect to other relevant services, performance is mixed: the expansion of rural electrification is ongoing but most rural areas do not yet dispose of a stable electricity supply; the proportion of the road network (including tertiary roads) in good or reasonable condition increased, although there is a deficit in performance concerning its maintenance; and the Bank of Mozambique is trying hard to improve access to financial services in the rural areas. Some micro credit institutions introduced agricultural credit and the number of micro credit operators outside Maputo continued to increase, although credit remains expensive and largely inaccessible to small-scale rural entrepreneurs. The legal registry of community land and the payment of twenty percent of the revenue of commercial forest explorations to the communities were found to be applied at a very limited level only.
14. The lack of available **disaggregated data on gender** limits the analysis of the performance with respect to gender equality. The difference in the net primary education (EP 1&2) enrolment rate between boys and girls shows progress, like in the previous years. The EP2 completion rate for girls also improved, although the target of 28% was not fully met. In 2006, the illiteracy rate continued to be twice as high among women, even in the age group under 35. The feminisation of HIV/AIDS is cause for alarm. In the age group from 20 – 24 years the proportion of HIV-positive women is three times that of men (22% vs. 7%) and 59% of ARVT is provided to women. Less than 10% of HIV-positive pregnant women receive the prophylaxis necessary to avoid vertical transmission and the target of 16.000 women was not met. The target of institutional childbirths also was not met and Mozambique continues to have one of the highest maternal mortality rates in the world. Recommendations resulting from the socio-anthropological study that is about to be finished, should help to revert this situation.
15. Although proceeding at a slower pace than in the previous years, the **recuperation of the bad credit of the Banco Austral** continued during 2006. From the beginning of the measures taken in 2002 onwards until the end of the year 2006, about 493 million MTn have been recuperated, as can be seen from the Informative Annex to the 4<sup>th</sup> Quarterly

Report of the Budget Execution of 2006, which corresponds to about 31% of the amount provided by the State. GoM signed contracts with agencies to guarantee the continuation of the recuperation process in future. According to the agreed report of the Joint Team on this issue, the PAPs were informed by the Government that the General Prosecutor of the Republic is taking follow-up actions on the forensic audit of the Banco Austral. The PAPs appreciate this information and the joint conclusion is that the indicator in the 2006 PAF concerning the Banco Austral has been met.

16. As part of the Joint Review a **meeting was held between the ambassadors of the PAP troika and GoM ministers** to discuss various points of a more political nature, including: the Banco Austral, Decentralization, Legal Reform, Agriculture and the Business Environment.
17. The assessment of performance in 2006 shows not only a positive performance in various areas represented by the PAF, but also areas where poor performance continued in 2006. Conscious of the risk posed by a cumulative poor performance in certain important areas for the sustainability and impact of the programme aimed at poverty reduction, it is recommended that in 2007 **special attention will be given to the following issues:**

### ***Poverty Analysis***

18. Various **studies on poverty** were undertaken in 2006, which contributed to improve the information base. It is important to continue these efforts, thereby offering improvements in the formulation and analysis of public policy. Challenges continue to be faced, especially related to the methodology (QUIBB, IAF). Meanwhile these studies allow for a better understanding of the various manifestations of poverty and its distribution among and impact upon the different demographic groups and regions of the country.
19. The important thing now is to use the analysis of the various sources to better focus the efforts and resources to where poverty occurs most, thereby making the link between poverty analysis and budget policy. Prior to the Mid Year Review the Poverty Analysis & Monitoring Systems working group (PAMS) will **analyse the studies** and identify key issues for strengthening the implementation strategies of the PARPA II through a more equitable allocation of public resources. Social protection programmes should attain the most vulnerable layers of the population, for example children, the elderly, disabled people and people affected by HIV/AIDS, victims of chronic malnutrition and family households headed by women. The lack of progress in the expansion of the vertical transmission prevention programme is cause for concern.

### ***Decentralization***

20. Within the context of decentralization **progress** has been noted in 2006 in the following areas: (i) creation of a structure for district governments with four integrated services; (ii) deconcentration of competencies in human resources management; (iii) establishment of consultative councils; (iv) introduction of a Local Investment Initiative Budget (OIIL). However, the implementation continues to face the following difficulties: (i) the allocation of responsibilities and functions at each operational level (central, provincial and district

level); (ii) deficient communication; (iii) confusion concerning the application of the OIIL; (iv) poor management capacity and service delivery.

21. There are **concerns** regarding: (i) delays in the preparation of the National Decentralized Planning and Finance Programme; (ii) the creation of public bodies within the municipalities; (iii) lack of progress in creating new municipalities; (iv) continuous decrease in terms of percentage of the fiscal transfers from the Budget to the municipalities. The National Decentralization Policy, which is in its formulation process, should deal with the range of subjects referred to and highlight both the decentralization of powers to the municipalities as well as the deconcentration of functions to local public bodies.

### ***The Business Environment***

22. It is increasingly important to emphasize the **business environment** and the need to improve it. Some progress is recorded in 2006, but specific and persistent problems remain, including: (i) access to credit; (ii) reimbursement of VAT; (iii) poor quality of national products; (iv) the Labour Law proposal; (v) with the exception of the Central Revenue Authority (ATM) and the Ministry of Industry and Commerce (MIC) no government body has undertaken any action aimed at eliminating the sharing of fines among the institutions and the inspectors. In implementing reforms in this area the following additional challenges stand out: (i) improvement of sectoral coordination; (ii) better monitoring of performance; (iii) strengthening of consultative mechanisms between the GoM, the private sector and civil society in the process of policy formulation; (iv) creation of consultative mechanisms at provincial and district level with a view to the deconcentration of competencies.

### ***Rural Development and Agriculture***

23. Rural development being a top government priority, more attention should be given to the cross cutting nature of this issue and to the consequent coordination among the actors. It is urgent to update the agrarian policy and approve and implement the **rural development strategy**, which clarifies the role of the state and the private sector in this process. Rural development calls for an increase in the productivity of the small producers. The Government should make efforts to ensure that agrarian public services relevant for the reality of the market, reach most producers. Rural markets are needed that are more competitive, offer better conditions to the small-scale farmer and provide access to inputs. District and provincial authorities will have to prioritize investments in rural infrastructure such as roads, electric energy, irrigation systems and water management and sanitation, aimed at meeting the needs of production, marketing and rural processing.

### ***Natural Resources Management***

24. Various questions related to this issue require attention. The implementation of existing legislation (especially that concerning land, forests and fishery) should be strengthened so that the citizen is able to better use his rights of access to natural resources and of participation in their management, and for a better sustainability of these resources.

Clarification is required of the integration of the **revenue of natural resources exploration** into the revenue management system of the state and of the criteria determining exploration fees.

### ***Corruption***

25. Recognizing that there has been notable progress with respect to the implementation of reforms in Public Finance Management, the risk of corruption remains considerable. In order to increase the viability of the system it is necessary to implement better management, including control and audit mechanisms that **guarantee compliance with the legal framework**, follow-up of illegalities and accountability. With respect to the inspection and fine system, it is important to make more progress with abolishing the sharing of fines among institutions and inspectors.

### ***Legal Reform and Justice***

26. **Progress has been shown** in the reform of the legal instruments that regulate the activities of the private sector. However, there are still delays in the planned legislative reform, involving the Organic Law of the Judicial Courts, submitted to the Assembly of the Republic, the Law on Community Courts, the Law on the IPAJ, the Penal Code and the Law of Criminal Procedure. Recognizing that these reforms are necessary to improve access to justice on the part of the citizens, the sector reaffirms its commitment to progress in this regard.

### ***Human Resources Management***

27. Various sectors expressed concern about the area of human resources, in particular in relation to the **slow pace of the salary reform**. This reform is considered indispensable for the realization of the necessary improvements of public services delivery. The salary updates reflect neither the real cost of living, nor the salary levels outside the public sector. This causes great difficulties in recruiting and retaining qualified staff at all levels, especially at district level. A coherent response is called for, rather than sectoral *ad hoc* solutions based on projects and consultancies. There is also the need to establish transparent and credible mechanisms and proceedings for the contracting of national and foreign technicians for projects and programmes.

### ***Management of the external component, including counterpart funds and VAT***

28. The **management of VAT payments, domestic counterpart funds and the state's debts** improved in 2006. However, this area faces major challenges and with the rising investments in infrastructure planned in 2007 there is an increasingly urgent need to find a solution to this problem. With a view to avoid breaking the VAT chain or changing the nature of the tax, the ideal technical option and the one preferred by the Government to solve this problem is the total funding of projects by donors, including the payment of taxes. It is important to verify to which extent the obligations of the state have been duly included in the 2007 budget, in order to avoid accumulation of debts.

29. The management of the **external component** continues to be complicated when funds remain off-budget and outside the Single Treasury Account (CUT). As of 2007 the database for aid to Mozambique, ODAMoz, can be the main source of information on commitments. It is necessary to ensure the inclusion of all partners in ODAMoz and improve the link with the Medium-Term Expenditure Framework (MTEF). The on-CUT guide should clarify and accelerate the process of including more external funds in the CUT.

### *Internal Revenue*

30. There was a nominal increase in **internal revenue** but the target in percentage of GDP has not been met. Efforts to increase the collection of internal revenue must be intensified, with a major focus on revenue from the exploration of natural resources. In addition it is necessary to compensate for the loss, as of 2008, of customs revenue due to the regional integration.

### *Quality of the BdPES*

31. Various factors contributed to not meeting the target set by the indicator on improved structure and quality of the **PES and the BdPES. Both documents have serious weaknesses with respect to their content and methodology**, including: (i) the lack of alignment between the BdPES and the Budget Execution Reports; (ii) the lack of an analytical connection between what was programmed (PES) and realized (BdPES); (iii) the need to complement the quantitative analyses with qualitative ones; (iv) the need to re-orient and organize the data collection and treatment system at all levels (from local to central). In addition, the time frame of the BdPES should be reconsidered so as to create a better linkage with the National Statistics System. The introduction of the PARPA II strategic matrix may have a positive impact on monitoring and management of the performance. The present challenge is to integrate the matrix of the PARPA II results and the sectoral performance frameworks, and to disaggregate the targets at decentralized level.
32. **The Joint Review considered that the achieved progress offers a satisfactory basis for the PAPs to maintain or increase the level of budget support. The commitments concerning general and sectoral support to the State Budget of 2008 will be made within 4 weeks after the final meeting of the Joint Review.**
33. **The overall performance of the PAPs in 2006 was mixed.** Notwithstanding a solid accomplishment of the PAPs in general, individual performances among the PAPs and in relation to the different targets varied quite considerably. The main **areas of progress** concerned the utilization of the Public Finance Management system of GoM and the increase in the percentage of general budget support (although this remains under the target). However, short term predictability showed a **poor performance** and five countries did not comply with one or more MoU provisions. Another **key concern** is the low proportion of programmatic aid (55% compared to the target of 70%). The target for the integration of funds in the Budget (OE) was not met, but important progress has been made recently, which should enable attaining the 2007 target.

### III SUMMARY PER PILLAR OF WORKING GROUP REPORTS

#### Macro-economic Management and Poverty and Public Finance Management

##### *Growth and macro-economic stability*

34. The economic **performance was satisfactory** with a real GDP growth rate of 8,5% in 2006, above the objective of the Economic and Social Plan. The sectors showing the strongest growth in terms of gross production value were agriculture (11,1%), construction (23,6%) and transport and communications (21,2%). Agriculture recuperated after the drought from the year 2005. The average annual inflation rate in Mozambique of 13,2% in 2006 surpassed the PES target of 7,5%, with the accumulated rate being 9,4% in December. The appreciation of the real effective exchange rate of the Metical at the end of 2006 was 1,8%.
35. The **monetary basis** of 14,700 thousand million Meticaais in December 2006 exceeded the programmed value with 700 thousand million Meticaais. This was due to the **introduction of the new Metical**, so that this was a short-term expansion. The balance of international liquid reserves increased to USD 1.219 million, equivalent to a 4,4 months' coverage of goods and services imports, surpassing the programmed target. Despite the growth of interest rates in 2006, credit for the economy increased with a nominal amount of 6,2 thousand million Meticaais, corresponding to a 29,2% rise. From 2005 to 2006 the value of exports increased 37% and 45,5%, including the big projects and excluding them respectively, revealing the dynamics of international trade. The level of external indebtedness diminished with the Multilateral Debt Relief Initiative, creating room for an increase in public expenditure to promote development.

##### *Analysis of poverty and monitoring systems*

36. To meet the objective of analysing poverty, the Government in collaboration with other partners conducted various **quantitative and qualitative studies** in 2006, which serve to enrich the knowledge about the complexity and occurrence of poverty in the country, such as for example the annual poverty report (RAP) elaborated by civil society (G20) and the study "Childhood Poverty in Mozambique – A Situation and Trends Analysis". The last study emphasizes that children from rural areas find themselves in worse conditions than their peers in urban areas. This suggests a more equitable distribution of resources between provinces/areas, giving priority to those that show the most alarming indicators and taking into account the gender perspective. In 2006, the methodology that allows for an estimate of poverty was perfected using Basic Well Being Indicators (QUIBB), conveying information that facilitates the following of the development of poverty in the country. The results are analysed in order to validate the methodology. Lessons learned show that there is a need for an analysis of the studies carried out so as to identify key issues for the strengthening of the implementation strategies of PARPA II and a more equitable strategic allocation of public recourses.
37. Relative to the PAF 2006 target on an improved structure and quality of the PES and BdPES, it should be noted that the **PES and BdPES structure was modified in the sense**

**of improving its quality**, with a focus on: (i) more emphasis on cross cutting issues; (ii) analysis of the Millennium Development Goals; (iii) introduction of the PARPA strategic matrix (including the PAF matrix) as an annex to the PES and the BdPES. The quality of the BdPES analysis did not improve significantly, however there are signs of better contributions by sectors. In conclusion, the target has not been met but progress was made.

38. The **challenges** identified are: (i) improvement of the alignment between the PES and the BdPES with a view to an effective planning and monitoring, possibly including a section on analysis and monitoring of poverty; (ii) improvement of the quantitative and qualitative analytical component of the BdPES. Among the **lessons learned** stand out the importance of the measurement of the proper PAF target in the area of monitoring and the need for a deliberate effort to improve the use of existing quality analyses with a view to improve public policy.

### *Overall analysis of Public Finance Management*

39. In accordance with Annex V of the Terms of Reference for the Joint Review, it was agreed that following upon the March 2006 **evaluation of the Public Finance Management (PFM) using the standardised international methodology** of Public Expenditure and Finance Accountability (**PEFA**), an overall evaluation of the PFM would be included in the present Aide-Mémoire, based on the reports of the different working groups and on specific developments in 2006.
40. This analysis has as its point of reference the international standards in the main areas of Public Finance Management. A good system of PFM entails aggregated fiscal discipline, strategic allocation of resources and efficient service delivery. Aggregated fiscal discipline is, in general, satisfactory, taking into consideration the results foreseen in the SISTAFE reform that is being implemented, leading to improvements in transparency and comprehensiveness of the budget and in information on the budget execution. In global terms **progress has been recorded in PFM in the course of 2006**, but some areas remain a concern and are **challenges to be considered in 2007 and subsequent years**.
41. **The process of preparing and elaborating the Medium-Term Expenditure Framework (MTEF) improved**, with a better structural link between the strategic PARPA matrix and the annual planning process, more involvement of the sectors in the formulation and underpinning of the proposals, as well as a more all-embracing inclusion of external resources. However, the linking, appropriation and involvement of this process at provincial and district level remains a challenge.
42. **The planning process improved at central level** with respect to sectoral coordination, knowledge of processes and methodology, coherence, transparency in the resource allocations and the structure of plans. **The expansion of district planning also improved**, but there remains an urgent need of coordination and integration between central and district level and between territorial and sectoral levels. **The improvement of management and planning capacity in general continues to be a challenge**. Efficient implementation of decentralization objectives requires not only capacity building at

district level, but also clarity in the definition of competencies, tasks and responsibilities at provincial and district level.

43. The definition of the criteria for the **allocation of funds** continues to be raised as a concern at municipal level. The flow of funds of the Municipal Compensation Fund to the municipalities shows a decreasing trend in percentage of the budget, which calls for a more profound analysis, taking also into account the revenue and the investments in the municipalities. On the other hand, provincial allocations are still disproportional, taking into consideration factors such as access to basic social services, population and poverty levels (as shown in the recent UNICEF report on child poverty). Therefore a significant improvement in decisions on budget allocations is required, based on classifiers and on an analysis of equity issues in the budget. Progress can be made with executing programme budgeting.
44. Substantial efforts have been made to **integrate off-budget funds** in the planning process and to achieve more transparency in the budget execution through e-SISTAFE. Good progress was also noted in the planning of revenue as such (for example in the Ministry of Agriculture), but the sectors show the need for a better dissemination of the regulations for own revenue. The budgeting of counterpart funds for investment projects with external funding improved in the course of 2006, having contributed to a reduction of accumulated debts, mainly in the area of infrastructure.
45. One of the results with major impact foreseen in the SISTAFE reform is an increase in transparency, information on public expenditure and decreased risk of funds embezzlement through direct **budget execution**. The functionality that allows for direct budget execution, e-SISTAFE, was implemented in most ministries at central and provincial level. However, the implementation of the e-SISTAFE is still in its first stage, with a transition from the old system of fund advancements to a modern system of direct budget execution. Within this context, the overall situation of liquidity in the sectors and provinces improved, but problems remain at district level. Some common sectoral funds encounter impediments in the flow of funds and, consequently, in budget execution.
46. In spite of progress, there are still **gaps and weaknesses in public finance management** in some areas at **sectoral and provincial level**, especially with regard to accountability. The statement of the Administrative Court on the General State Accounts (CGE) of 2005 draws attention to these weaknesses and to the lack of compliance with the regulations. Delay in closure of accounts in the e-SISTAFE system, non-compliance with deadlines and errors in registry, documentation and accounting are weaknesses found. It would be worthwhile if the Ministry of Finance would make technicians available for a better follow-up and for providing assistance to the sectors (central and provincial) in the use of e-SISTAFE.
47. The improvement of the sectoral budget management requires the consolidation and further strengthening of the already improved **articulation between the Ministry of Finance and the sectors**. Such strengthening is also required between the central and local level, given the increased responsibility for budget management at local level.

48. With regard to the control of staff and payroll expenditures, the process for a more efficient control seems to be moving, given the start of the **public servants census**. This continues to be a major challenge, especially with respect to maintenance and control of the unified database that is to be created.
49. **Improvements in the quality of the budget execution report (BER)** have been observed concerning its format, transparency of information and terms for submission. It is expected that with the increase in direct budget execution through e-SISTAFE there will be an additional increase in the quality of information in the BER, and that it will also be possible to increase the speed of the process of closure of accounts.
50. Taking into consideration that in this initial phase of the implementation of the e-SISTAFE **the manual system is still being used**, more clarity is needed about the regulations in force and the compliance with the main accounting principles. At the level of the base management units (UGB) it is necessary to emphasize the need for maintaining the archive concerning administrative processes, including financial, budgetary and property accounting. In the area of Public Accounting the challenge will be developing still further the General State Accounts, better integrating the accounting of State property and the capital accounts.
51. In 2006, the number of completed internal audits almost doubled in comparison with the previous year, thereby increasing the coverage. Other important developments with regard to **internal auditing** during 2006 were the actions to follow-up on previously carried out audits in order to verify the level of implementation of recommendations made, as well as the increase in the number of decisions taken by the IGF on completed audits. These are important elements for the efficiency of auditing and internal control.
52. The strengthening of the capacity and quality of public finance management at provincial, district and municipal level poses an important challenge. Also improvement of the Subsystem for Internal Control (SCI) at these levels is essential, as is the continued strengthening of the institutionalisation of the **Internal Control Units (OCIs)** at central level. Weaknesses are still found in the full implementation of the training activities of the SCI, calling for the elaboration and approval of the plans for the subsystem.
53. **Improvements** were noted in the **capacity** (including through recruitment of staff) to carry out and extend internal and external audits, **improving the coverage of audited public expenditure**, with an emphasis on the audits conducted by the Administrative Court (TA) in various districts. The key question to be answered concerns the need for clearer attributing of responsibilities and better follow-up on the problems encountered and on the recommendations made in the audits that were conducted. This should also involve the highest levels of the sectors, the IGF and the legal system. The improvement of public access to decisions and to the Report and Opinion on the CGE of the Administrative Court, for example through the Internet and timely publication in the Bulletin of the Republic, should also be considered an important complement to the progress realized thus far.

54. The process of implementation of the **new procurement regulations** by the state is ongoing, but encountered some delays. There remains a challenge in the dissemination of the procedures in force for the provinces and districts. The creation of necessary structures for its full functioning continues to be a very important challenge, especially at provincial and district level. Training activities are ongoing, as well as the analysis for the integration of the procurement proceedings in the e-SISTAFE.
55. Important progress was made in 2006 with the inclusion of more own and earmarked **revenue** in the budget and in the BER. As was observed during the visits to the provinces and districts, there remains the problem of timely availability of these revenues for expenditure in accordance with the budget. According to the TA's report and opinion on the CGE, many difficulties are still encountered in accounting for the own revenue. Therefore it is increasingly necessary to create incentives for sectors to include their own revenue to a wider extent in the state budget. There is also the need to improve the management of the own revenue (with more rigour in registration and accounting). The process of including registration and classification of revenues in the e-SISTAFE has only just begun and should be consolidated.
56. Progress was made by the General Tax Directorate (DGI) in the **management and recuperation of taxes in arrears**, although the value retrieved was less than programmed. This work should continue more intensively, with higher priority for the larger debts and for the improvement of the control instruments by IT means. Given the challenge to increase revenue, transparency and improvement of the management of conceded tax exemptions is increasingly urgent: it would be important to consider analysing the possibility to include information on exemptions in the government reports submitted to the Assembly of the Republic, in particular the PES report.
57. The discussion about how to solve the problem of the **accumulated government debts associated with the payment of VAT** by the Government in investment projects with external funding, and the solution of pending cases, was initiated. Meanwhile GoM agreed to realize an external audit with support from donors, in order to evaluate and propose to the Government measures for the solution of the arrears in debt, which eventually will be approved by GoM.

#### ***2006 performance evaluation in Public Finance Management in relation to the PAF***

58. Regarding the **analysis of the budget**, all targets of the PAF were met in 2006, reflecting a level of budget execution that is generally satisfactory: (i) more than 65% of the level of expenditure execution in the priority sectors, with levels for education and health higher than 50%; (ii) execution rates for current expenditures in goods and services highest in the priority areas; (iii) the level of current expenditure execution at provincial level higher than that of 2005. Good performance was also noted with respect to the targets of including own revenue and common funds in the OE 2007. It is still necessary to divulge a guide for how to put external funds on-CUT. An important step towards the improvement of the access to information on the external component of the budget was the transfer of the ODAMoz database to the Government.

59. **Areas that deserve more attention** are: (i) management of the external investment component, including a new approach of the common funds in order to align them with the existing legislation; (ii) predictability of the disbursements of the partners (General Budget Support, but also funds and projects) so as to integrate them in the consolidated budget cycle; (iii) sustainable solution of the VAT; (iv) transparency in the areas of state property and financial management of public enterprises and treasury loans to private companies; (v) improve the dialogue between the GoM and the Administrative Court in order to solve the critical points repeatedly brought up in the TA reports.
60. An evaluation of the State Budget 2007, the MTEF 2008-2010, the General State Accounts 2005 (CGE) and the Report and Opinion by the Administrative Court on the CGE 2005 has been carried out during the Joint Review. The main points are discussed in this **Aide Mémoire** and a more inclusive summary is to be found in Annex IV.
61. The 2006 performance concerning the consolidation of the **tax reform** showed a positive trend. Progress was registered in all areas. There were also some constraints associated with the preparation and management of the integration in the Central Revenue Authority (ATM) of the general tax and customs administrations. The two targets agreed upon for the PAF were not met, but progress has been made, observing the following: (i) revenue was 0,6 percentage points short of meeting the target of 14,8% of total revenue in percentage of GDP, despite a revenue increase; (ii) the target of elaborating and approving the Information Technology Development Plan (PDTI) within the framework of the establishment of the ATM was not met, but progress was made.
62. Total revenue collected in 2006 increased in real terms with 13,6% compared to 2005 and surpassed the budgeted value with almost 2%. However, the collection ratio in relation to the tax base was not achieved despite the 0,5 percentage points increase relative to 2005. Given the growth structure of the GDP, these results may indicate that the sectors driving growth are not the most important ones for domestic revenue, and a study/analysis of this issue is being recommended. On the other hand, there is also the need for reinforcing the efficiency and improvement of the administration and auditing, as well as for an analysis and review of the **fiscal benefit code** aimed at increasing the collection and transparent management of revenue from natural resources exploration.
63. Economic agents continued to lodge complaints about the **delay in VAT repayments**, but there were also many difficulties to be found in the constitution of the justifications, leading to suspensions or rejections due to irregularities in the requests. Despite the work being done in this respect by the administration, the challenge remains for a swifter management and dissemination of information.
64. The **Central Revenue Authority** was established and started to function, with a successful transition. A draft of the PDTI was elaborated at the end of 2006. Improvements were noted in customs control and dispatches. The installation of merchandise scanners in the port of Maputo contributed to a better control but also raised concerns about the high costs for the economic agents and the possible implications for the competitiveness in the region. Three laws were submitted to the Assembly of the Republic with a view to rationalize management and the attribution of fiscal benefits,

concerning specific taxes for mining activities and oil exploration and one law on the fiscal benefits for these sectors. The challenge remains to put into practice a more efficient control of conceded fiscal exemptions, in order to broaden the tax base and reduce tax evasion.

65. The PAF target for 2006 in the area of **procurement** reform was met with delay. The Central Procurement Supervision Unit (UFSA) was created in 2006, budgeted and started functioning, but with some delays. The evaluation of the strategy to implement the regulations is ongoing but an adequate monitoring system that allows for future measurement of performance still needs to be developed. UFSA staff and consultants were appointed, although not all were appointed to the corresponding functions. The link with the key ministries through the sector specialists foreseen in the UFSA regulations should - in addition to the Ministry of Public Works and Housing - also be realized for the other ministries with huge procurement volumes, such as Health and Education. Essential for the implementation of the regulations is the ongoing creation of all required Units for Execution and Management of Acquisition (UGEAs) and a direct and visible supervision by the UFSA of the UGEAs with high procurement volumes in a first phase. The various areas where procurement and the other norms and regulations converge, such as the type of control by the IGF and the TA and the integration with e-SISTAFE, still have to be taken care of.
66. In the first phase of the **SISTAFE** reform the functionality that allows for the realisation of direct budget execution was developed and made available. The main result planned for 2006, reflected in the target of the PAF indicator, was the implementation of the e-SISTAFE in all ministries at central and provincial level, thus initiating a transition from the old system of advancements of funds to a modern system of direct budget execution. This target was satisfactorily met.
67. The old system of **advancements of funds** is still in force, limiting the impact of the SISTAFE reform. Some challenges and areas were found that require more attention in the short term in order to achieve the immediate objectives of the reform, namely: (i) revision of the various registries (suppliers, staff, bank accounts) and allow for the integration with the Single Tax Identification Number (NUIT) so as to enable direct budget execution; (ii) more emphasis on the dialogue between the Ministry of Finance and the line ministries concerning the use of e-SISTAFE in budget execution, internal control and management, both at sector and at institutional level. This dialogue is important in order to avoid resistance against change and to facilitate the transition of the old system to the new one. It would be recommendable if the Ministry of Finance would continue to lead the SISTAFE reform, with more attention to the main objectives and to the advantages that the reform may bring if e-SISTAFE is being used as planned. In order to maximize the potential of the reform, the Ministry of Finance will have to put more emphasis on compliance with the legislation and the existing regulations on the part of the line ministries.
68. With the exception of the three municipalities in the northern region, all **internal audits** anticipated for the districts and municipalities have been realized, and at the end of 2006 the reports were in the phase of being completed. Audit teams visited 21 districts in all

provinces except Zambézia and 30 municipalities, corresponding to 16% of all districts and 91% of the municipalities. Of the total target group (districts and municipalities) 32% was audited, thus easily meeting the 20% target established for 2006. The creation of audit committees was initially foreseen for 2005, but was rescheduled to the present year. The creation and regulation of their functioning are essential for the effective implementation of the audit's recommendations. Also important will be the elaboration of a legal mechanism to clarify and internalise the roles and responsibilities of the different OCIs in the development of the SCI.

69. In 2006, the number of **external audit** reports completed, but still waiting for the verdict of the judge, was 155, thus surpassing the anticipated target of 70 completed audits. The number of judged audit reports increased to 45, compared to the year 2005, when 11 were judged. It is necessary to take measures to reduce the relative delay in the appreciation and confirmation of the audit processes.

### **Governance Pillar**

70. In the area of governance three targets were met, nine were not met but showed signs of progress and one was not met. The process of the **Public Sector Reform** was marked by the establishment of the National Authority for Public Service (ANFP) and by the launch of the second phase of the reform. Its implementation, ongoing already, is expected to have impact on the quality of service delivery to the citizen. The **Anti Corruption** Strategy was approved in 2006, leading to sectoral commitments consolidated in matrixes with proper measures, which are expected to have an effect on the prevention of and fight against corruption. The **area of Decentralization** was marked by important progress, among which the introduction of the Budget for Local Initiatives Investment (OIL), which presents a positive dynamic, but needs to be extended to the municipalities. The **Justice Sector** could concentrate its efforts largely on improving the delivery of legal services, thanks to the development of human resources during the last years. The launch of the public debate on the Justice Vision gave a new impulse to the revision of the Integrated Strategic Plan of Justice and stimulated the conception of the Integrated Planning, Monitoring and Evaluation System of the sector. Meanwhile, partial progress was noted in the legal reform, with delays in the anticipated legal reforms. In comparison with the previous reviews, **some improvements in the quality of the dialogue** between the partners and the government could be welcomed.

### ***Public Sector Reform***

71. The three PAF indicators established for the **Public Sector Reform** were not met, but progress has been made for them to be met in 2007. The approval of the salary policy and the harmonization of the three existing data bases depend on the completion of the ongoing census of public servants and agents, a decision taken in 2006 together with the creation of the ANFP. With regard to indicator 40 (completion of the elaboration and the beginning of the implementation of the restructuring plans of seven ministries) performance was mixed. Two ministries completed the design of the new structures (Health and State Administration). The Government and the partners see the need to

redirect the restructuring process towards an approach that leads to significant impacts on service delivery.

72. Concerning indicator 41 (increase of new staff in the public sector recruited on the basis of transparent public competition) there were **no data** that allowed to check performance due to the absence of an initial data base. Recruitment norms have been established for public servants and agents. However, there is a need for **revision of the recruitment procedures of national and foreign personnel** for projects and programmes from this point of view. The year 2006 was marked by important activities: the creation and start of the ANFP (which became the supervisory body for the Public Sector Reform), the elaboration and approval of Phase II of the Public Sector Reform, the restructuring of the technical unit for the public service reform UTRESP and the elaboration and approval of the Anti-Corruption strategy (whose National Action Plan of five selected sectors was approved in the beginning of 2007).

### ***Decentralization***

73. In the area of **Decentralization** progress concerning the PAF indicators of 2006 was positive. The significant increase of audits and inspections at district and municipal level was recognized as a positive step, although their publication and dissemination will be made later, in accordance with the timetable. The execution and consolidation of the Budget for Local Initiative Investments in 2006 represents a significant step in the process of fiscal decentralization and in the efforts aimed at transforming the district governments into budget units in accordance with the Law on Local State Bodies 08/2003 (LOLE). In the same context, the impetus achieved in the rapid expansion of the local councils covering all districts and the participatory approach introduced in the OIIL programming, were equally encouraging achievements. However, it is necessary to better clarify and accompany the use of the district funds.
74. Despite these positive signs, there are some concerns. The first draft of the **National Decentralization Policy** (PND) did not correspond to the expectations created in the Joint Review of 2006, in terms of swiftness of the process and the level of its content. It is expected that the consultation process foreseen in 2007 will result in an improvement of the quality and the thoroughness of the document. It was noted that despite the progress in fiscal decentralization related to the districts, the trend of fiscal transfers to the municipalities did not correspond, in terms of percentage, with the vision of the PARPA II and other strategic decentralization documents. Despite the notable progress in the establishment of the IPCCs in all districts, a big challenge in the area of community participation remains capacity building in order to guarantee representative and good quality participation and active involvement of civil society in the preparation and monitoring of the plans. Finally, there were concerns on the part of the partners about the loss of impetus in the design of the National Programme of Decentralized Planning and Finance, and the consequences in terms of continuity of the programme in some provinces.

## *Justice Sector*

75. The analysis of the degree of fulfilment of the PAF targets for the **Justice Sector** indicated that from the seven targets two were met, namely (45) on the handling of proceedings and (46) on prison management. The remaining ones were not met, although they did show signs of progress: (42 and 43) concerning corruption, (47) on the Vision, (48) on the reformulation of the plans and the monitoring system, and (49) concerning the legal reform. This result shows that the main concentration of efforts in the sector in 2006 was on improving legal service delivery, with an increase in the handling of proceedings, especially in the number of verdicts, and a decrease in the number of prisoners awaiting trial, thanks to the expansion of human resources in the last few years. The launch of the public debate on the Vision gave a new impulse to the revision of the Integrated Strategic Plan of Justice and stimulated the conception of an Integrated Planning, Monitoring and Evaluation System of the sector.
76. With respect to the **legal reform** partial progress should be noted with the approval of the Criminal Law, the creation of the Commercial Sections and the reform of the Notary Law, shaping part of the indicators 49 a), b) and c), respectively. However, there was a delay in the planned legislative reform, involving the Organic Law of the Judicial Courts, submitted to the Assembly of the Republic, the Law on Community Courts, the Law on the IPAJ, the Penal Code and the Law of Criminal Procedure. Meanwhile actions have been developed outside the indicators, among which the approval and enforcement of the Commercial Code and the Code of Commercial Registry. In addition one notes the innovation of the judicial management system, with the introduction in the judicial apparatus of functions for judicial administrator, head of prosecution services and senior technician of the justice administration.
77. No more **legal inspections** were carried out in 2006 in addition to the four reported in the Mid Year Review. Instead the judicial magistrates have been analysed and classified based on the previous inspections. In its turn the Public Ministry realized five inspections, two of which were investigations. The need for improvement of the jurisdictional activity, intensification of internal control measures, improved management of the discipline of the institutions of the sector and the gradual modernization of the services are main lessons to be drawn concerning performance in the area of justice in 2006. They should guide further development of the system as a whole. Crucial aspects that require more attention in the achievements of the justice system are: (i) the reduced staff of the judicial magistrature, of the Public Ministry and of the respective inspections; (ii) the scarce flow of information about the ongoing actions within the context of the fight against corruption; (iii) the delay in the approval of the strategic planning instruments of the sector, of the anticipated legislation and of the Action Plan for the Fight against Corruption.
78. The **Anti-Corruption** Strategy was approved in April 2006, leading to sectoral commitments consolidated in matrixes consisting of own measures. These commitments are expected to have effects on the prevention of and the fight against corruption. The approval of the strategy strengthened the commitment of Government to fight corruption.

There is, however, still the challenge to show concrete actions in the various sectors. It should be noted that the planning for 2007 within the context of the Public Sector Reform reflects concrete actions and resources to fight corruption in the sectors, but these actions are not reflected in the sector plans. The flow of information on the activities of the GCCC continued to be poor in 2006. Although accusations have been raised in some cases, their outcomes are still unknown.

## **Economic Development Pillar**

### ***Financial Sector***

79. The performance of the **financial sector** in 2006 was characterized by significant progress in relation to the PAF, meeting two targets, while the remaining ones were not met but showed progress. The forensic audit on Banco Austral was completed and the report is now in the hands of the Public Ministry for due fulfilment. The Law on Bankruptcy (LFL) was submitted to Parliament.
80. The **banking sector** showed signs of good performance, characterized by a positive variation of 29,2% of nominal credit in 2006 as against the 48% registered in 2005 and a rather modest reduction of the average interest rates, with the spread reduced from 10,82% to 10,62%. The number of banking branches increased from 219 to 231 in 2006. The low level of presence of banks in the economy, especially in the districts, continues to be of great concern, because from the 128 districts in the country a mere 28 have banks. The **micro finance** sector performed well. The number of clients increased with 41,4% and the credit portfolio with 67%. The share of non-performing loans continued to decline, achieving 1,5% in 2006.
81. As far as **social security** is concerned, the year 2006 saw the enrolment of 1.788 contributors and 33.995 beneficiaries, as against the 1.500 and 20.000 that were foreseen. In accumulated terms, there are now 20.322 contributors and 643.328 beneficiaries. The system of social security covers the whole country, with a total of 11 Provincial Delegations and 21 District Directorates, apart from a significant number of local representations.

### ***Private Sector***

82. Some progress in the improvement of the business environment was registered in 2006, with the government having adopted the ***Doing Business Report*** as an instrument of objective reference for the evaluation of progress. Nonetheless, compared to other developing countries in Africa and in the world, the country's position in the ranking of *Doing Business* deteriorated. It should be noted that the data of *Doing Business* only refer to progress until March 2006. Other studies (e.g. CTA/MPD) were not that negative. There were significant improvements with regard to the setting up and registry of businesses, as a result of the computerization of the commercial registry, the elimination of the public deed and the electronic publication of the Bulletin of the Republic. With

these innovations, the period to start a business is now substantially shorter than target of ninety days as established in the PAF for this indicator.

83. The PAF indicators on private sector development for 2006 were: (18) reduction of the **cost of dismissal**, (19) **time to initiate a business** and (44) **abolition of the sharing of fines** through the elimination of all special decrees for the direct use of fines by the recipients (ministries, inspectors). Target 18 was not met but there was some progress. Target 19 has been met. Regarding target 44, MIC and the ATM took some steps but the other sectors did not follow these developments. Therefore, the target was not met but there was progress.
84. The slow reimbursement of VAT, the high cost of **scanning** containers and cargo, the high cost and limited access to financing for production purposes, the restrictions in granting credit in foreign currency and the inefficiency of the judiciary system continued to be mentioned by the private sector as constraints. It is necessary to strengthen the consultative mechanisms involving the government, the private sector and civil society in the process of formulating policies and legislation.

### *Agriculture*

85. In **agriculture**, the four planned indicators for 2006 did not meet the targets that were foreseen. The indicator “% of the explorations that adopted at least one new technology” was not met, but registered some progress. The remaining three indicators were not met with the following achievement rates: areas (ha) with newly constructed and/or rehabilitated irrigation systems, paid from public funds: 80%; percentage of the processes for requiring a land title completed within ninety days: 74%; and percentage of animal husbandry explorations that vaccinated cattle: 85%.
86. There was good performance by the Ministry in preparation of its **Medium Term Fiscal Scenario** (MTEF). On a positive note, also the first version of the evaluation report of the National Program for Agrarian Development (PROAGRI I) was finalized, which served as a guide for the implementation of phase II. PROAGRI II took off and significant work was done with a view to complete the Memorandum of Understanding. The completion of the personnel framework and the updating of the database on personnel allowed for the incorporation of 632 workers and will be a solid basis for the preparation of the training plan. The Information Management System already became a reality in the Ministry.
87. Financial management is one of the big gains of **PROAGRI I**. However, some difficulties re-emerged that already had been solved in the context of the audits and accountability, as a consequence of the leaving of personnel. The Ministry of Agriculture (MINAG) faces serious challenges in the integration of gender aspects and environmental questions in its programming and planning. Being one of the main actors in poverty reduction, it is imperative for MINAG to try to integrate the efforts for the elaboration of a strategy that ensures an impact in the field. The MTEF should reflect the allocation of resources to investments in support of production.

88. Within the context of **impact monitoring**, it is essential to improve the degree of trust in quality of agricultural statistics. In order to implement the intensification programme, implementation mechanisms are being defined with a view to guarantee a better impact on the increase in production and productivity, as well as on food security and sustainability. This programme, although accepted by the partners, was conceived without being harmonized with them. After consultations, a consensus was reached that future programmatic MINAG directions would be previously harmonized, in accordance with what has been established in the MoU.
89. The decentralization poses new challenges for MINAG, now with new responsibilities and funds attributed to the **district governments**. MINAG has to establish competencies that guarantee the harmonization of the vertical and horizontal processes down to local level.

### **Roads**

90. In 2006, the **road sector** presented a mixed performance in various areas: (i) the road indicators on rehabilitation of primary and tertiary roads saw a satisfactory implementation level; the targets for the rehabilitation of secondary roads and for periodic and routine maintenance were not met; (ii) the expenditure realized in relation to the roads budget corresponded to 94%, with most expenditure in rehabilitation of primary roads; (iii) the general conditions of the roads and the levels of passability improved in comparison to the previous years (target not met but showing progress); (iv) in the course of 2006 the levels of collection of funds of the Road Fund (FE) attained 102,5%. There was an increase in the investment funds of the Ministry of Finance channelled to the FE (2005: 631,0 million MTn; 2006: 770,90 million MTn).
91. The institutional reforms of the road sector are being implemented with a certain delay in relation to what was programmed initially. An important occurrence in 2006 was the finalization of the **Integrated Programme of the Road Sector (PRISE)**, which foresees a common approach of issues concerning the planning of all activities in the road sector. This means that from the approval of this instrument onwards, the donors of this sector will have to focus their funding in projects that are part of the PRISE. Simultaneously finalized were the sector PAF, the MoU and the Code of Conduct. The PAF constitutes a fundamental instrument for the analysis of the sector's performance and will help the monitoring of the programme that already has been approved. With regard to the MoU and the Code of Conduct, these will be approved in the course of 2007. Internal consultancies at the level of the cooperation partners are ongoing so that one can proceed to signing in the course of the fourth quarter.
92. The VAT continues to be a concern in this sector. As a matter of fact PRISE, with a budget of approximately one billion US dollars, will require a considerable effort on the part of the government to comply with its financial responsibilities, be it for the provision of funds for VAT be it for counterpart funds. The **clarification of the VAT issue** would help to stabilize the construction market and the prices charged by contractors.

93. With regard to the **lessons learned**, it should be emphasized that there are two levels of responsibility with respect to the Road sector and the Government at the highest level, namely: (i) the rapid finalization of the process of recruiting anticipated staff in accordance with the new organic structure through a transparent and credible process; the strengthening of planning; the sharing of information between the various bodies that constitute the system of road management and the cooperation partners; the maintenance and consolidation of the role of the Road Fund in relation to the donor/government coordination. (ii) the finalization of the policy of non-classified roads and the offering of a clear treatment of this kind of roads; internalisation of the procedures of approving tender documents, leading to a reduction in the time required for approval on the part of the government; effective control of the funds resulting from the taxes on fuel; good practices in managing funds and in implementing the programme, which create trust in the parties involved in the implementation of the PRISE and pave the way for a better adherence to sectoral budget support by the cooperation partners.

### *Energy*

94. The target defined in the PAF for the energy sector in 2006 was met. Regarding the strategic PARPA II matrix, the operationalization of the **National Council for Electricity (CNELEC)**, the signing of the contract programme and the electrification of schools were not achieved, although being under way. The performance of the new connections resulted in an access increase from 7% in 2005 to 8,5% in 2006, which will allow for compliance with the 10% indicator for 2009. The indicator for natural gas production in Pande and Temane was met. The realization of new connections constituted the area that performed best. Poor performance is noted in the completion of the contract programme between the government and the Mozambique Electricity Company (EDM), although it does not mean a total failure in terms of performance and monitor indicators.
95. The lessons learned in this sector are: (i) failure of the competition criterion in the selection of the CNELEC members; (ii) the large contribution of the new connection technologies to the increase in the number of consumers; (iii) **EDM** performance constraint resulting from the present conditions in which funds from donations are passed on to EDM by the Ministry of Finance.

### *Fishery*

96. This is the **first time** that the Fishery sector contributes to the Joint Review. There existed no indicator for the sector in the PAF 2006. Recently a working group for the sector has been established to develop indicators to be used in future reviews. The data of the sector indicate that 92% of the targets of the sector for 2006 were met. This clearly is a positive result, especially if compared with the progressive decrease of global capture, or even if applied in relation to the total of captures.
97. **Shrimps** continue to be the most important industry, representing a total of 59 million USD, despite a decrease of 13% in capture; fishery continues to be a sector of vital importance to the economy, representing revenue of 247,855 million USD. In addition, the fishery sector is a source of key nutrition and domestic consumption increased 2,4% in

2006. Cause for concern is the small increase in the production of aquaculture, given that this sub sector could offer a valuable contribution to the GDP if the necessary measures were taken. Within this context, the Ministry of Fishery recently approved the **Development Plan for Aquaculture in Mozambique**, based on the Code of Conduct for Responsible Fishery.

## **Human Capital Pillar**

### ***Health***

98. The year 2006 was characterised by a certain stabilization of the performance in the **Health** sector and by a progressive evolution of activities. A decrease of imbalances in the use of services was noted. The global pattern of diseases was similar to that of 2005, with the exception of measles, which decreased, and malaria, which saw an increase in the number of cases and deaths. Nutritional problems continue to be a health problem for the population, especially in association with the impact of HIV/AIDS. The index for the inequity of access to services improved, a trend that has been observed since 2000, but the target was not met. The volume of external consultations saw an increase of 7,0% and the annual target of 18.719.000 consultations in 2006 was surpassed. 90% of the health units were covered with Integrated Management of Childhood Diseases (AIDI), surpassing the previously stipulated target of 80%. Access to ARVT expanded in 2006, and 120 additional facilities for ARVT treatment were opened and equipped, corresponding to 100% more than the 60 initially planned for this period.
99. From the 5 indicators that are part of the 2006 PAF, three met the targets (Coverage DPT/HB-3<sup>d</sup> dose, consultations per inhabitant and patients treated with ARVT), two did not meet their target (coverage of institutional childbirths and HIV-positive pregnant women who receive prophylaxis), of which the last indicator shows some progress. Ongoing in the sector is the process of development and harmonization of the performance indicators aligned to the **PES II** and the **PARPA II**, focusing on the poverty index and on the equity of access to health services, especially to those related to HIV/AIDS.
100. **The best performing areas of the sector in 2006 were:** (i) the services consumption index; (ii) the increase in access to ART treatment; (iii) the integration of the vertical programmes in the existing programmes/services; (iv) the implementation of the Integrated Attention to Child Diseases strategy; (v) the ongoing integration of the component Newborns in the existing courses; (vi) the increase in vaccination of children under 1 year of age; (vii) acquisition and distribution of reference equipment, which showed significant progress; (viii) the financial area improved, above all in the component budget execution; (ix) improvements in registry/notification in the area of safe motherhood and the plan to fight malaria.
101. **The areas with poor performance of the sector in 2006 were:** (i) insufficient education and community mobilization; (ii) integration of the gender component in the programmes; (iii) indicators of nutritional vigilance continued to decrease; (iv) the plan to fight

tuberculosis: low disease detection rate; (v) weak harmonization of plans between central and provincial levels; (vi) weak financial management of donor funding; (vii) persisting problems in the area of human resources: posting and retention of personnel (there was a high turnover of staff); (viii) the number of pregnant women receiving prophylaxis for vertical transmission prevention: there was an increase in terms of the number of sites but the real number of women receiving the complete package was slightly below the planned target, despite the new approaches.

### ***Education***

102. In 2006 the sector of **Education** continued to report growth concerning its main indicators. The net enrolment rate in primary education was 87,1% as against the 85% that was planned. With respect to girls, it was 84% as against the 82% planned. In 2005<sup>4</sup>, the gross completion rate in the EP2 was 34% for both sexes, identical with the target planned. For girls, the rate was 27,3% against the 28% planned.
103. The areas of **progress** were the following: (i) the Strategic Plan for Education and Culture (PEEC) was finalized and approved by the government. The PEEC contains the political principles of the sector with a view to achieve the programmed targets in a comprehensive manner and a detailed matrix of performance indicators aligned with those of the PARPA/PAF; (ii) the Ministry of Education and Culture (MEC) and the partners in the sector fund (FASE) adopted a new memorandum of understanding that simplifies proceedings and aligns them with those of the financial administration of the state; (iii) the execution of the budget of 2006 was better than that of the previous year and very close to the approved for the period. Expenditure of the education sector was 21,1% of the total of the State Budget, excluding debt payments (20,4% in 2005) and showed an execution rate relative to the approved budget of 94% (92,4% in 2005); (iv) MEC completed the elaboration of a new database of human resources. After its installation in the provinces it will be provided with data of the national Human Resources census, which will improve the management of these resources. Although the completion rate is improving significantly, there is still need for paying more attention to girls and for improving the quality of learning in the school.
104. The biggest **challenge** is improving the quality, for which an increase in the teaching hours is essential. In this context it is urgent to eliminate teaching in three shifts, discourage late enrolment in schools, especially for girls, and correct the disparity age/class. The sector will have to build more schools in order to reduce the distance school/house, above all in the rural areas.
105. **Other challenges** are the following: (i) in the course of the next few years, the MEC will have to implement an adequate strategy for secondary education in order to deal with the high demand and with the aspects of quality, relevance and efficiency of this level of education; (ii) the MEC and the MF should continue with the efforts to eliminate the delays in disbursements, especially for the programmes running in the provinces, avoiding

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<sup>4</sup> It was agreed that the completion rate would be presented with a one-year delay, given that the data are only available as from the month of May of the following year.

interruptions in their development; (iii) the decentralization requires the improvement and alignment of the planning, budgeting and evaluation processes between the different levels. The provinces should transpose national targets into local ones, guarantee that they are met and ensure a more equitable allocation of funds; (iv) from the 1.467 classrooms planned for 2006, the MEC only completes 26<sup>5</sup>, while the remainder is still under construction, partly due to the delay in disbursement of the funds. The evaluation of the programme in terms of quality and construction capacity should enable the establishment of targets that are more executable in the short and medium term; (v) weak links continue to be noted between the processes of Public Sector Reform of the ANFP and those of the Education Sector Reform.

### ***Water and Sanitation***

106. According to the values presented in the PES Balance report, the targets foreseen in the 2006 PAF for the **Water and Sanitation** sector have been met in the case of the indicator for access to drinking water, but not for the indicator for access to sanitation, which remained slightly below the forecast value.
107. The sector's budget execution in 2006 can be considered positive, given that it achieved 89,5% according to the **Budget Execution Report** (BER), while it should be pointed out that the National Water Directorate (DNA), which in previous years showed execution levels under 50% achieved a financial execution of 98,7% in 2006. Significant differences continue to exist between the values of the internal and external components of the Investment Budget mentioned by the BER and those mentioned by the institutions of the sector. It is recommended that the DNA and the Ministry of Finance (MF) properly reconcile the financial information prior to issuing the reports.
108. Some positive actions were taken in the liquidation of old debts through a better **coordination** between the institutions of the sector, the Ministry of Finance (MF), the Ministry of Planning and Development (MPD) and the Cooperation Partners, but the questions of debt and VAT remain critical issues. The trend to reduce the internal component of the Investment Budget of the National Water Directorate (DNA) in the last few years is reason for worry, because it may contribute to the running up of debts and it does not show a contribution to the increase of investments that the sector needs. The introduction of the SISTAFE had a positive impact on the execution and financial management of the sector. For a better efficiency and to better benefit from the full potential of the SISTAFE, the water and sanitation group considers it essential to install an Executing and Managing Unit (UGE) at the DNA, as well as in the other institutions of the sector.
109. The support of the Cooperation Partners continues to be poorly harmonized despite the joint efforts for the creation of a **SWAP**, which will try to include most Cooperation Partners. There is the need to pay special attention to the strengthening of institutional

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<sup>5</sup> It should be noted that in 2006 were also completed 479 classrooms of the pilot programme for accelerated construction of school infrastructure for primary education, initiated in November of 2005. For more details please see the section on infrastructure under point 2.1 General Education in the group report of annex IV.

capacity, mainly in aspects of planning, monitoring, administration and finance, at the DNA level, which is an important precondition for this institution to be able to effectively carry out the functions of sectoral coordination that have been attributed to it.

### *Social Welfare*

110. **Social Welfare** did not have specific indicators in the 2006 PAF. According to the BdPES 2006, Social Welfare provided assistance to 86.104 Children in Difficult Circumstances, 62.918 of whom are Orphaned and Vulnerable Children (OVCs), representing 5,24% of the total of 1,2 million defined in the Action Plan for OVCs. However, the **Ministry of Women and Social Action** (MMAS) acknowledges that there may be actions developed by civil society organisations that are as yet not reflected in its annual plans and reports. Thus, MMAS and partners consider it important to strengthen the mechanism that allows for the sharing of information for an integrated planning and monitoring and evaluation system (PES, OE, BdPES). The MMAS signed a partnership agreement that initiated the creation of a monitoring and evaluation system and a database for the management of information concerning children.
111. The best performance was noted in the attendance of the most **vulnerable groups**. Demand was larger than foreseen in the area of institutional assistance (pre-school children, the elderly and the disabled) and in the programmes of basic social assistance (Food Subsidy, Direct Social Support and Social Benefits through Work). The over-performance with respect to the targets in these programmes (Food Subsidy Programmes 18%, Direct Social Support 138% and Social Benefits through Work 41%) was due to the redistribution of budget lines allocated to the community development and income generating programmes, which are in a phase of consolidation. Four guiding instruments for the assistance to the main target groups were approved.
112. Budget execution was 76,94% in relation to the overall value of the allocation to the sector. **Social protection** as a whole (comprehensive set of programmes) and institutional capacity building constitute priorities of the sector. The budget made available in 2006 corresponded to 0,7% of the OE total value. The implication of this provision is a lack of allocations of funds to budget lines for other forms of attending the target groups, as well as to institutional capacity building. The Programme for Social Action (PSA), which is supported by the OE, at present covers over one hundred thousand direct beneficiaries. Due to budget reasons the planned updating of the scale did not keep up with the periodic adjustments of the minimum wage level, leading to a situation where the value of the benefit represents less than 5% of the minimum wage.
113. The elaboration of the **sector's strategic plan** continues to be one of the major challenges. It depends in part on the validation of the results of the functional analysis of the sector carried out in 2006. At present, the absence of basic data on the various target groups hampers the measurement of the impact of the realized activities. The lack of financial, material and human resources, especially at district level, also constitutes a challenge.

## ***Habitation***

114. The only area of **Habitation** that performed better in 2006 was the one related to the making of regulations, which consisted of the elaboration and approval of the **Regulations on Urban Land** that complement the Land Law (Law n° 19/97). The norms are limited to definition of a uniform regime of access to land in urban areas, based on distribution plans elaborated on appropriate technical and legal criteria.
115. Concerning technical support to the local bodies that implement the **partial zoning plans**, seven from the eleven bodies in the provinces of Maputo and Zambézia were assisted. From 10.914 plots 4.325 were demarcated, corresponding to a realization rate of 40%. Budget execution was 69%, motivated by delays in the availability of financial means. The challenges for Habitation are: (i) more emphasis on the collaboration with the local authorities within the framework of Territorial Distribution and Planning; (ii) provide the populations with duly distributed space; (iii) provide techniques to improve the production of construction material, using local resources.

## **Cross Cutting Issues**

### ***HIV/AIDS***

116. Important progress was made in 2006 in meeting the targets from the 2006 PAF matrix on antiretroviral treatment and mitigation of the impacts on OVCs. Although some progress has been made, the HIV vertical transmission target was not met.
117. Among the well performing areas in 2006 stand out: the **antiretroviral** treatment –44.100 people received treatment, compared to 27.000 in 2005, 58% of whom are women and around 8% are children under 15 years of age. The network of health units offering antiretroviral treatment increased from 38 in 2005 to 150 in 2006, covering 70% of all districts. As far as **mitigation** is concerned, the government approved a budgeted multisectoral plan for the situation of Orphaned and Vulnerable Children, covering over 280.000 children with at least three basic services. The **political commitment** to the fight against HIV and AIDS was strengthened by the launch of the Presidential Initiative for the Fight against AIDS and its response in the ministries, provincial governments and the districts. The total **funding provided by the National Council for Combating Aids (CNCS) for the civil society organisations and government institutions** increased from 7 million American dollars in 2005 to 9,7 million dollars in 2006, while the average financial value provided to civil society doubled.
118. The poor performing areas in 2006 are: the **prevention of vertical transmission (PTV)**, because despite the increase in the number of units offering PTV (from 82 in 2005 to 222 in 2006) and in the number of women counselled and tested for HIV and, a mere 12.150 HIV-positive pregnant women received prophylaxis against PTV (8% of the needs). As a consequence, some 30.000 children were born with HIV in 2006 (half of these children will die before reaching the age of 2). **Government financing in the area of HIV and AIDS** for all sectors continues to be low. The internal allocation of resources to the CNCS

decreased notably for the third consecutive time and 90% of the allocated resources are from external sources. The delay in the recruitment of the Management Agent for Subprojects meant that the **management of grants continued to distract the attention of the CNCS Secretariat**, and in particular of the Provincial Centres, from its main mandate of coordinating and monitoring the national and sub national response. The **financial execution level of the CNCS Secretariat remains low** (from the 28,2 million dollars that were allocated, 16,6 have been spent, or 59%). The **prevention programmes** are being efficiently implemented in less than 50% of the schools, limiting the expansion of HIV and AIDS prevention among children and youth and the **Law for the protection of People-Living-With HIV/AIDS (PVHS)**, submitted by civil society and PVHS organisations is still waiting appreciation and approval by Parliament.

119. Among the lessons learned stand out the **Constraints concerning human and financial resources**, which limit the national response. To date, less than 20% of the people who seek ART treatment actually receive it and less than 10% of HIV-positive pregnant women receive prophylaxis to prevent vertical transmission. There is an **urgent need for strengthening the monitoring and evaluation capacity** of the ministries and the CNCS at national and provincial level. It is expected that the **Grant Management System** increases the number of large scale projects – those of type A and of the “facilitating agents”, essential for the development of capacity and the transfer of resources to small organisations at community level.
120. In addition there is need for stronger **alignment and harmonization**, taking into account that transaction costs for the government remain high despite the growing effort to coordinate and harmonize with the partners. There are still projects/programmes with different mechanisms for the development of reports and the implementation of the Memorandum of Understanding signed in March 2006 (and not yet in operation), constitutes a challenge for some international organisations in the sense of adopting the Principles of the Paris Declaration.

### *Gender*

121. The PAF indicator “Approval and initiation of the implementation of the Gender Policy and the Implementation Strategy” **was not achieved, but progress has been made**. The Gender Policy and Implementation Strategy (PGEI) was approved by the Council of Ministers and is waiting to be approved by parliament.
122. **The best performing areas are:** (i) the MMAS made headway with capacity building, in particular about the Family Law and Gender Sensitive Budgeting; (ii) approval and submission of the Bill Against Domestic Violence; (iii) establishment of technical councils for the advancement of women in all provinces; (iv) creation of gender units in the education sector in all districts; (v) the gender gap is diminishing at the level of first grade primary education (EP1) (net enrolment rate of girls – target: 86%, result: 86%; percentage of girls attending EP1 increased from 46,3% in 2005 to 46,8% in 2006; (vi) the target of 42% for rural water coverage was met; (vii) the number of new connections in the area of energy surpassed the target.

123. **The areas with poor performance in 2006 are:** (i) health showed an increase in maternal mortality, a reduction in the number of institutional childbirths and failed to meet the target for avoiding vertical transmission of HIV; (ii) the inexistence of evaluation mechanisms of the MMAS hampers the performance analysis; (iii) in second grade primary education (EP2) and in secondary education (ESG), the gender gap remains big, and increases at every higher level (result: EP2 = 41,9%, ESG2 = 38,9%).
124. There is a continuous need for information disaggregated per sex in order to allow for analyses and for identifying the efforts made in the promotion of **gender equality and women empowerment**. It is necessary to introduce impact analysis (qualitative evaluation) in the women empowerment programmes (e.g. income generating programmes; capacity building programmes). It is also necessary to institutionalize evaluation mechanisms with clear indicators. This also concerns other sectors contained in the PAF indicators.

### ***Food Security***

125. The year 2006 was considered a “normal” year in the area of **food security**, owing to the good performance of the first and second agricultural season, the good development of animal husbandry and stability of the prices in most markets of the country. The availability of food, both at the level of the family households (AFs) and in the markets, was satisfactory. Access to food was reasonable at AF level, thanks to the prevailing relative stability of supply and demand of food products in most markets of the country. However, in remote areas prices were higher and access to basic products was limited for the poorest families.
126. Alarming levels of acute malnutrition in the country were not observed. The **Insufficient Growth** (CI) rate improved due to the stability of food availability, the absence of climatic setbacks and the implementation of interventions aimed at mitigating the effects of food insecurity (InSAN) on vulnerable groups, including children under 5 years of age. On the other hand, chronic malnutrition, reflected in Low Birth Weight (BPN), and the occurrence of malaria or anaemia in pregnant women continued to be alarming in the provinces of Cabo Delgado, Niassa, Nampula, Zambézia and in some districts of the provinces Gaza and Inhambane. This indicator continues to pose a threat to the development of human capital.
127. The Food and Nutrition Safety Technical Secretariat (**SETSAN**) conducted the first baseline study on Food and Nutrition Safety (SAN), which will provide a more profound analysis of the relation between food insecurity and malnutrition as a whole and will help research and the political agenda in this area. The SETSAN intends the results from this study to be validated by the National Institute for Statistics (INE) and integrated as a data base for the monitoring of poverty.

### ***Demining***

128. In 2006, the **Mine Action Programme in Mozambique** continued to register notable developments, mainly in the area of demining, in which some 10,5 million m<sup>2</sup> (target: 10

million m<sup>2</sup>/year), were cleared, 6.5 million m<sup>2</sup> were checked and around 23.900 mines and 1.600 non-exploded munitions were located and destroyed. 83 villages were freed, benefiting around 335 thousand people. However, compared to 2005 there was a decrease of 65,5% in the levels of clearing due to the termination of the activities of humanitarian operators (PAD, APN and RONCO) and the reduction of the activities of commercial operators.

129. The provinces of Niassa, Cabo Delgado, Nampula and Zambézia already have mined **areas that are recognized as being fully cleared**. The provinces of Tete, Sofala, Manica, Inhambane, Gaza and Maputo still face a critical situation with respect to mines. In 2006, 18 accidents were registered with 35 victims, 19 of whom were mortally wounded, which represents a decrease of 22% in the number of accidents and of 39% in the number of victims, compared to the year 2005.
130. For the realization of the activities, the programme counted on the **contribution of the international partners** in the magnitude of 3,7 million US\$ and of the government in the magnitude of 30 million meticaís. Compared to previous years (2004 with US\$ 14,4 and 2005 with US\$ 15,0 million), 2006 was the year with the lowest financial contribution of international partners. Until 2010 the programme needs a little over US\$ 50 million.

### *Environment*

131. In the area of the environment, the most prominent progress in 2006 concerned the elaboration of the spatial planning methodology and the involvement of **MICOA** in the discussion of the national decentralization programme at MPD level. The collaboration with INE resulted in the preparation of the first **Environmental Statistics Compendium** at national level. As a result of the collaboration with the Ministry of Energy, the discussion on climate change and renewable energy is involving the sectors of Agriculture and Industry and Commerce.
132. Priorities for 2007 are the urgent need for approval of the **Environmental Strategy for the Sustainable Development of Mozambique and the Territorial Distribution and Planning bill**. In order to strengthen the intersectoral dialogue, MICOA will stimulate the creation of environmental units in the sectors, the functioning of the intersectoral technical reflection group and a more active role of the National Council for Sustainable Development (CONDES). With special attention to the level of district planning, the MICOA will deepen the integration process of the environmental agenda in the sectoral plans and programmes at all levels.

### *Rural Development*

133. During the year 2006, the National **Directorate for the Promotion of Rural Development** (DNPDR) undertook activities within the context of promotion, coordination, formulation of strategies, research of processes and monitoring of development activities of rural areas. The target of the PARPA indicator for the area – six **Local Economic Development Agencies** (ADELs) at the end of the year – was met with the activation of the ADEL in Xai-Xai. Other results of 2006 were: the strengthening of

the market links through the actions of the Support Programme to the Agricultural Markets (PAMA); the completion of the technical document on the Rural Development Strategy and the formulation of new programmes with the completion of the design of the Development Project of Market Oriented Small Producers for the Zambezi Valley.

134. The failure to approve the new **Organic Regulation** of the Provincial Directorates of Planning and Finance hampers the institutional articulation between the central, provincial and local structures because of the unclarities it brings about. The monitoring of the rural development actions, programmes and projects was another area of poor performance in 2006.
135. The main **lessons learned** indicate the need to ensure an effective representation of the DNPDR at the level of all provinces of the country, within the context of the Promotion and Coordination of the Rural Development Activities. There is a need for a correct exit strategy of the Support Programme to the Agricultural Markets (PAMA) and its duplication. More attention will be given to the exercise of elaborating, implementing and monitoring the District Development Strategic Plan (PEDD). Priority will be given to the definition of the institutional framework and to the strengthening of the component of rural development promotion, investments and rural finance at the level of the DPPFs.

### *Science and Technology*

136. In the course of 2006, the MCT expanded to the regions North, Centre and South, establishing **Regional Science and Technology Centres** and the Provincial and District Science and Technology Centres, with a view to facilitating the execution of its activities throughout the national territory and positioning Science and Technology as the first productive force of sustainable development.
137. Thematic scientific councils were created and programmes to support the realization of research projects and scientific expeditions were undertaken. Science and Technology Exhibitions were organized, as well as **mobile presentations of Science and Technology in schools and communities**. Also workshops were realized for the Dissemination of the Policy and the implementation of the Science and Technology Strategies. The Strategy and Action Plan for Intellectual Property was also elaborated this year. The implementation process of the electronic government strategy (e-Government) is ongoing.

### *Natural Disasters*

138. In 2006, GoM approved the **Master Plan for Prevention and Mitigation** of natural disasters, whose strategic lines concern the following areas: imbalance of water resources, food and nutritional imbalance and emergency management and related means. The best performing areas are the intervention on arid and semi-arid areas where a beginning was made with the provision of water for agriculture, drinking water for animals and human consumption, and the situational survey in the communities with a view to develop non-agricultural community projects in the Resource and Multiple Use Centres (CERUM), in addition to the early warning system and the creation of the risk management committees in the communities.

139. The implementation of the different programmes in 2006 shows that it is important that the sectors at central and provincial level ensure the integration of the actions of the Master Plan in the PES and that the Consultative Councils in the districts use the Master Plan as a technical guide in the planning phase. Also to be continued is the process of creating **risk management committees in the communities, the divulgation of the early warning system for cyclones and floods**, in addition to the creation of a solid information and communication system.

#### IV PERFORMANCE OF PAPs IN 2006

140. The review of the **PAPs performance** in 2006 was carried out by an independent consultancy. The basis for the assessment was the PAP's 2006 PAF matrix, as agreed with the GoM and the PAPs during the Biannual Review of 2005. The next assessment of the PAPs performance will take place during the RC of 2008, using the PAP's new PAF matrix that is aligned with the Paris Indicators on Efficiency of Aid.
141. Overall, the PAPs performance was mixed. While the PAPs overall achievement was solid, **performances among the PAPs and in relation to the different targets varied quite considerably**. The main areas of progress were in using the public finance management system of the GoM and the increase of the percentage of overall budget support (although it remains below target). The year 2006 also saw the entry of a new and important PAP, the African Development Bank.
142. Meanwhile, **performance is poor with respect to short-term predictability**, which is a matter of great concern for the GoM and the PAPs, with five countries not complying with one or more MoU provisions. The PAPs agree to increase the number of consultations and the peer pressure to avoid a repetition of non-compliance with the MoU. Another key preoccupation is the small proportion of programmatic aid (55% compared to the target of 70%), even in the sectors with well-established SWAPs, Sector Wide Approaches (i.e. a mere 36% in the education sector). The PAPs agree to work to increase this percentage.
143. The target for the **integration of funds in the Budget** (OE) was not met, owing to some uncertainties in the definition of aid that should be on-budget and in the proceedings for incorporating it in the OE. It is acknowledged that important progress has been made recently both in the definition and in the proceedings, which in itself should make it possible for the 2007 target to be met.
144. In 2006, the PAPs carried out **213 missions as against the target of 167**. The PAPs agreed to reduce the workload of missions as well as other transaction costs, and a beginning was made already with assessing the division of tasks. The target of guidelines agreed upon by the technical cooperation was not met but the PAPs are determined to meet the changed targets agreed upon in September 2006 during the Biannual Review of this issue. The PAPs anticipate more guidance of the GoM in the process of the National Aid Policy that currently is being prepared.
145. Looking at the **individual performance of the partners**, the strongest (75% or more of the maximum number of points) were DFID, the Netherlands, Switzerland, Ireland, Sweden, Norway, Finland and Belgium. The EU, African Development Bank, the World Bank and Portugal all achieved between 60 and 76% while the remaining 6 PAP achieved less than 60%.
146. As pointed out in the report, care should be taken in interpreting these results because of the **portfolio composition of some PAPs**. Some donors improved their performance

considerably but didn't meet the targets yet and the improvement of their performance is not always reflected in the scoring. The PAPs having a large proportion of their external aid in the form of projects in the public sector need time to change the composition of their external aid portfolio, develop, or adhere to, joint programmes or make projects consistent with the PAP's PAF targets. It was agreed that the scoring mechanism might be discussed prior to the Biannual Review of 2007.

147. It is expected that the **PAPs who scored low for the year 2006 will do better in the coming years**, given the fact that they already initiated the process of developing a portfolio and a project management structure more in line with the PAP's PAF targets (and of the Paris Declaration). The government recognizes the need for a mixture of modalities, but prefers budget support. Despite the need and the joint desire to increase programme aid, it should be noted that projects could and should be better aligned, and that they can meet almost all indicators in the PAP's PAF matrix provided they comply with certain criteria and are aligned with national strategies and procedures.
148. The PAPs and the GoM strongly **advise France to align its definition of budget support** as soon as possible to those of the other PAPs. No matter how, this will have to be done before the new MoU enters into force. The question of Denmark's adherence to the consultation process of the MoU was mentioned in the report. Although Denmark feels that its decision not to disburse to the OE has been properly notified, the joint opinion of the GoM and the PAPs is that that was not the case. It is clear that the PAPs and the GoM need to continue to work on the proceedings in order to obtain a clear and common interpretation of the MoU.
149. With a view to improving the **adherence to and the alignment of the MoU principles**, the PAPs are collaborating with the GoM to submit the new PAP strategies to a peer review and they established a team for the Peer Review of the MoU concerning the sectors.
150. An important recommendation of the report is that the aid process should be better **incorporated in the medium term planning and development process**, and that the GoM has to assume leadership in the external aid process. The GoM is developing its Aid Policy and strengthened the MTEF process. The PAPs committed themselves to align their aid with the MTEF and to strengthen the medium term provisions in the following MoU for budget support, and possibly a new indicator for the PAP's 2008 PAF in order to improve predictability.

## V IMPLEMENTATION OF THE MOU

151. In general, the MoU **reporting requirements were followed by the Government**, in accordance with section 15 of the MoU. They allowed for a continuous dialogue during 2006 and also served as a basis for the Joint Review 2007 (PARPA II, PES 2007, OE 2007, MTEF 2007-2009, PES Balance 2006, budget execution report 2006, CGE 2005, report and opinion of the Administrative Court 2005).
152. The PAPs did not assess the **Budget 2007** during the Mid Year Review 2006, and it was agreed to postpone the assessment to the Joint Review of 2007, which was done by the Budget Working Group. This group also assessed the **General State Accounts (CGE)** and the opinion of the **Administrative Court** of 2005. The result is part of the group report (see annex IV).
153. As for MoU statements on the assessment of Public Finance Management, it was decided in the Mid Year Review 2006 not to elaborate a separate report every year. It was agreed that for the Joint Review 2007 the **PFM assessment** would be based on the regular following of the respective PAF indicators and in other relevant and available analytic inputs. The result of this PFM assessment is integrated in Section III of the Aide-Mémoire.
154. The PAPs complied with their commitments in accordance with section 16 of the MoU concerning information requests. This time the **reporting of the PAP performance assessment was timely**; the only thing lacking was the Portuguese translation, which only became available in the second half of March.
155. The **monitoring and dialogue** processes were successfully followed between the two reviews and aligned with GoM's planning and budgeting cycle. The dialogue about the PARPA II resulted in a PAF 2007-2009 with forty indicators and targets fully aligned with the PARPA II strategic matrix. The dialogue in the Justice area improved after the Mid Year Review 2006.
156. The **sectoral annual reviews were an integral part of the Joint Review**, which allowed for an additional alignment of the dialogue processes, reviews and sector commitments with the GoM's planning and budgeting cycle. The Joint Review followed the approved timetable, with the exception of the postponement of the final session. The use of Portuguese as only language of communication in the review and the increased involvement of the MPD focal points facilitated the GoM leadership of the joint process.
157. It was agreed that **the following PAF 2008 indicators could be altered** prior to the Mid Year Review 2007: nr. 9 (on external audit), nr. 13 (on municipalities), nrs. 14 and 15 (on the Justice sector), nr. 31 (on the private sector) and nr. 35 (on agriculture). See Annex III for more information. Note that the targets for all PAF 2008 indicators will be defined during the Mid Year Review 2007.

158. Some **annexes** of the MoU needed to be **updated** (Annex 1: List of signatories; Annex 10: Exceptions to the MoU). Austria entered as a new PAP member. In accordance with the MoU requirements, the number of exceptions to Annex 10 was reduced.
159. In the Joint Review 2006 the PAPs decided to devise a **peer review mechanism for new bilateral agreements** (see ToR of the Troika in Annex 9 of the MoU), so that these agreements would be fully aligned with the MoU. This mechanism was put into effect in 2006, reviewing the new bilateral agreements proposed by Belgium, Norway, DFID and Italy. The peer review led to an improvement in the agreements, although not all final agreements passed the test of full alignment with the MoU.

### *Audits*

#### *(i) Value for Money audits*

160. The MoU foresees the realization of **Value for Money audits** in a sample of activities relevant to poverty reduction. These audits should be executed by IGF, with the help of qualified and independent consultants. Despite the constraints (especially the lack of credible information on planned and realized actions), it is considered that these audits have brought a considerable added value. The recommendations have been well accepted by those audited and it is expected that in the sectors that were covered improvements will be introduced in terms of a management more directed towards the achievement of results. A third performance audit conducted in the context of the MoU concerned the water sector. During the Joint Review 2006, only the draft of the report was submitted due to the delays registered in the initial timetable. The final version is still under discussion in the water sector. The timetable (see annex V of the Aide-Mémoire) foresees the conclusion of this process in June.
161. It can be observed already that **the quality of the Value for Money audits improved**. In the report from 2005 (concerning the road sector) the component ‘value for money’ was limited. The audit took into consideration more organizational issues and questions concerning overall efficiency. In the audit of the water sector, on the contrary, much attention was given to questions concerning costs and the rational and efficient use of resources. Both the roads audit and the one related to water comment on weaknesses in financing and management of infrastructural projects and they recommend new models of financing, analysis of results and accounting of costs. The reports highlight the need to resolve the serious problems related to the VAT system. With respect to water, recommendations were made for a decentralized management in order to obtain a more efficient and effective performance.
162. In general, the **term for submitting** the previous audits **was very long**. One reason was the use of different financing and procurement systems for each new Value for Money audit. Therefore it is recommended: (i) to complete the audits in shorter periods of time; (ii) to establish a standard financing and procurement model that allows for more rapid and efficient actions; (iii) recommendations that are well clarified and guided.

163. During the Joint Review 2006 it was agreed that the next Value for Money audit would be in the justice sector and that it would be done in two years (2006-2007), so as to obtain a preliminary product for the Joint Review 2007 and a final product for the Joint Review 2008. Unfortunately, the preliminary product, the **Specific Audit Plan**, has not been elaborated to date. However, the proposed timetable in the ToR for the audit will be observed and the final product will be presented in the Joint Review 2008 (see annex V). The GoM guarantees the full cooperation of all parties involved in the audit. It had been decided during the Joint Review 2006 that the sector of Agriculture was the sector to be audited in 2007. However, during the Mid Year Review 2006 it was decided at political level that the assessment of Justice would take two years, that is 2006 and 2007. Thus, it was agreed with the **sector of Agriculture** during this Joint Review that that sector would be **assessed in 2008**.

*(ii) Audit of the financial records of programme aid*

164. The financial audit of the **flow of programme aid funds into the Treasury Account** in 2006 was carried out and the final report submitted within the term set. The opinion of the auditors is that the financial statements truly and correctly present the financial position of the Specific Transitory Account, in accordance with generally accepted accounting principles and practices.

165. Attention was drawn to the fact that the support of the German government was converted at a wrong exchange rate due to a failure of the Bank of Mozambique. The management report noted **two observations concerning the previous year that were not corrected yet**: (i) lack of harmonization of the transfer commissions charged by the Deutsche Bank; (ii) banking expenses charged by the Bank of Mozambique. It was also noted that the amount disbursed by the government of Sweden was unduly credited to a current account of the Bank of Mozambique with Deutsche Bank, an error that was immediately corrected. The auditors recommend that the Bank of Mozambique make all information available to the partners in order to guarantee that the transfers take place without incidents.

*(iii) Audit of the State Accounts.*

166. The **Administrative Court (TA) audits annually the State Accounts**. The audit of the General State Accounts (CGE) was analysed in detail by the Budget Working Group, also on the basis of an analysis done by Sal Consultancy. This analysis is included in the electronic version of the annexes and is available on the website of the PAPs. The main conclusions are part of the report on budget execution (see Annex IV). The TA concluded that the CGE 2005 has a wider scope than the CGE 2004. The number of public institutions that are annually visited slightly increased, thus contributing to the audit of the CGE increasingly being more complete and better documented. Part of the present comments of the TA, repeated each year, have their origin in the different interpretations of laws and regulations, or in the lack of clear regulations. A dialogue between the Ministry of Finance and the TA is necessary. In addition, GoM should correct the gaps in legislation, regulations and proceedings. This work is ongoing. An example is that the first manual of financial administration and accounting procedures already exists.

## LIST OF ABBREVIATIONS

ADEL	Local Economic Development Agency
AIDI	Integrated Management of Childhood Diseases
ANFP	National Authority for Public Service
ATM	Central Revenue Authority
ARVT	Anti-Retroviral Virus Therapy
ARV	Anti-Retroviral Virus
BdPES	Execution Report of the Social and Economic Plan
BER	Budget Execution Report
BNP	Low Birth Weight
CGE	General State Account
CNCS	National Council on Combating AIDS
CNELEC	National Council for Electricity
CONDES	National Council for Sustainable Development
OVC's	Orphans and Other Vulnerable Children
CTA	Federation of Economic Associations
CUT	Single Treasury Account
DGI	General Tax Directorate
DNA	National Directorate of Water
EDM	Mozambique Electricity Company
EP1	First Level Primary Education (grades 1 to 5)
EP2	Second Level Primary Education (grades 6 and 7)
ESG	Secondary Education
e-SISTAFE	State Financial Administration System – electronic system
FASE	Education Fund
FE	Roads Fund
GBS	General Budget Support
GCCC	Central Anti-Corruption Office
IAF	Survey of Family Units
IGF	General Inspectorate of Finance
IGS	General Inspectorate of Insurance
IPCC	Intergovernmental Panel on Climate Change
IPAJ	Institute for Judiciary Assistance (for free)
IMF	International Monetary Fund
INSS	National Social Security Institute
IPCC	Community Consultation Institutions
LFL	Law on Bankruptcy
LOLE	Law on Local State Bodies
MCT	Ministry of Science and Technology
MDRI	Multilateral Debt Relief Initiative
MEC	Ministry of Education and Culture
MF	Ministry of Finance
MIC	Ministry of Industry and Commerce
MICOA	Ministry for Coordination of Environment Affairs

MINAG	Ministry of Agriculture
MINEC	Ministry of Foreign Affairs and Cooperation
MINT	Ministry of the Interior
MISAU	Ministry of Health
MMAS	Ministry of Women and Social Action
MPD	Ministry of Planning and Development
MTEF	Medium-Term Expenditure Framework
MTn	New Metical (Mozambican abbreviation of its currency)
MDG	Millennium Development Goals
NUIT	Single Tax Identification Number
OCI	Internal Control Unit
ODAMoz	Official Development Assistance for Mozambique database
OE	State Budget
OIIL	Investment Budget for Local Initiatives
PO	Poverty Observatory
PAF	Performance Assessment Framework
PAMA	Support Programme to the Agricultural Markets
PAMS	Poverty Analyses and monitoring Systems
PAP	Program Aid Partner
PARPA	Action Plan for the Reduction of Absolute Poverty
PAV	Expanded Vaccination Program
PEEC	Strategic Plan for Education and Culture
PEDD	District Development Strategic Plan
PGEI	Gender Policy and Implementation Strategy
PEFA	Public Expenditure and Finance Accountability
PES	Economic and Social Plan
PDIT	Information Technology Development Program
PFM	Public Finance Management
PND	National Decentralisation Policy
PRISE	Integrated Programme of the Road Sector
PROAGRI	National Program for Agrarian Development
PTV	Vertical Transmission Prevention
PVHS	People Living with HIV/AIDS
QUIBB	Questionnaire on Basic Indicators of Well-Being
SAN	Food and Nutritional Safety
SETSAN	Food and Nutrition Safety Technical Secretariat
SCI	Subsystem for Internal Control
SISTAFE	State Financial Administrative System
TA	Administrative Court
UGB	Base Management Unit
UGE	Executing and Managing Unit
UFSA	Functional Unit of Supervision of Acquisition
UGEA	Unit for Execution and Management of Acquisition
UTRESP	Technical Unit for Public Sector Reform
VAT	Value Added Tax