



REPUBLIC OF MOZAMBIQUE



PROGRAMME AID PARTNERS

ANNUAL REVIEW 2010
AIDE-MEMOIRE

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LIST OF ACRONYMS AND ABBREVIATIONS

I INTRODUCTION & CONTEXT

1. On 19 May 2010, the Government of Mozambique (GoM) and the Programme Aid Partners (PAPs)¹ finished the Annual Review (AR) of the Government's implementation of the Action Plan for the Reduction of Absolute Poverty (PARPA II, extended until the year 2010) and of the PAPs' performance concerning the efficiency of external support. The Review was based on the performance assessment frameworks (PAF) agreed for 2009, and identified the key lessons which shall be taken into account for the 2010 performance and the 2011 planning and budgeting process. The Review was based on the Government's plans and reports: PARPA II, the Economic and Social Plan and State Budget for 2009, the Report on the Economic and Social Plan execution in 2009, the Report on the 2009 Budget Execution, Sector Reports, and the independent Mozambique PAPs Performance Review 2009. The Ninth Plenary Session of the Development Observatory was also held during the Annual Review process .
2. The 2010 Annual Review (AR) is the first one to be done under the terms of the new Memorandum of Understanding (MoU) for 2010-2014, signed in March 2009. Twenty-nine (29) Working Groups were involved in the review, distributed over five Thematic Pillars. The groups were made up of Government representatives, the PAPs², other cooperation partners and civil society. —
3. This Aide Memoire (AM) consists of: 1) Introduction and Background; 2) a joint conclusion on the outcome of the Review; 3) Implementation of the MoU. The annexes of the Aide Memoire are: 1) Assessment of Government's performance by the PAPs; 2) Performance assessment of PAPs by the Government; and 3) Government and PAPs' PAF matrices; 4) Reports of the Pillars; 5) Reports of the Working Groups. The issues that deserve special attention are part of the Joint Conclusion.
4. On March 31, an IMF mission concluded ad referendum the sixth review under the Policy Support Instrument (PSI), the second review under the Exogenous Shock Facility (ESF), and discussions on the authorities' economic program to be supported under a successor three-year PSI. The economic program between Mozambique and the IMF stayed within the defined limits and all quantitative assessment/performance criteria through end-December 2009 were met, except for the one on reserve money, which exceeded the program ceiling because of the continued difficulty in predicting the demand for currency in circulation. This was a result of both the year-end seasonal surge and the structural shift from the expansion of banking services in the economy.

¹ Germany, Austria, the African Development Bank, Belgium, the World Bank, Canada, the European Commission, Denmark, Spain, Finland, France, the Netherlands, Ireland, Italy, Norway, Portugal, Sweden, Switzerland and the United Kingdom. These partners (PAPs) provide budget support and have signed a Memorandum of Understanding with the Government. The PAPs' associated members are: the United States and the United Nations. The International Monetary Fund is a member *ex-officio* of the PAPs.

² One working group has no PAP representatives.

5. Looking ahead, a recovery in external demand and capital inflows, as well as recent donor assurances on their budget support commitments, should strengthen Mozambique's balance of payments and further buttress its international reserves. Average inflation for 2010 is projected to around 9 percent-higher than the medium term objective of around 6 percent-because of an increased pass-through of international fuel prices to domestic retail prices and depreciated metical. Mozambique's strong economic fundamentals and prudent macroeconomic policy mix over the past two decades have provided the necessary flexibility to ease macroeconomic policies in 2009 to respond to the global economic crisis. For 2010, the IMF supports the authorities' intention to begin unwinding the monetary and fiscal stimulus initiated last year, which will help maintain macroeconomic stability and restore the policy buffers. Over the medium to long term, the IMF agreed with the authorities' intention to step up priority transportation and electricity infrastructure investment in an effort to further raise Mozambique's growth and export potential while stressing the importance of ensuring that such investment has a high rate of return and helps generate additional private sector investment. In particular, it will be important to follow a cautious approach in accessing external non-concessional borrowing so as to preserve Mozambique's strong track record of macroeconomic stability.
5. The IMF's Executive Board is scheduled to discuss the final PSI/ESF program review under the current program and Mozambique's request for a new three-year PSI in June 2010.
6. As part of the Annual Review, a meeting between the Ministers of the GoM and the PAPs' Ambassadors of the *Troika-plus* was held to discuss several points at the political level, such as: Monitoring of the Matrix in the area of governance; issues about the Development challenges and interaction between the PAPs and the Government; Banco Austral and Approval of Joint Conclusion.

II JOINT CONCLUSION

8. The 2010 Annual Review is the first to take place under the new Memorandum of Understanding (MoU) signed in March 2009. Along with the experience of the past years the review provided a sound basis for discussions at different levels and the work was conducted in a constructive atmosphere, despite challenges due to the introduction of new procedures.

9. The Government's PAF matrix comprises 40 indicators. For 18 of these the targets were met, and for the 20 indicators where the targets were not met, 15 have made progress. It was considered not possible to measure indicator 4. Indicator 7 presents two qualifications: for the Government, "target achieved", based on agreed Technical Note, "target not achieved" for the PAPs for the reason that they want to include other information sources (such as the Administrative Tribunal and the General Inspectorate of Finance), a situation not originally envisaged in the technical note. The PAPs consider the Government's performance as satisfactory in several areas despite the negative effects of the global economic crisis. Based on this assessment and the results achieved after the Political Dialogue in March, the PAPs believe that there is a satisfactory basis for continuing with budget support. Decisions on the level of commitments for the 2011 budget will be notified four weeks after the closure of the Annual Review.
10. According to the results of the PAPs, in general, the Government considers that the group's performance in 2009 was average, with improvements in some areas. Compared with 2008, there was a slight increase in the score of the group as a whole of about one point. Of the PAPs' PAF matrix 11 indicators were met and 8 were not achieved.
11. The GoM and the PAPs notice a slowing trend of the overall pace of progress over the last three years, which poses challenges for both parties. Thus, it was agreed that the subjects listed in the following paragraphs deserve special attention during the year 2010.
12. Ensure the sustainability of the economic growth rate and take steps to ensure that economic growth and rural development in particular have an impact on the poor and disadvantaged through the creation and expansion of jobs; accelerate the improvement of the business environment and the support to small and medium-sized enterprises; and improve the selection process and prioritization of public investment in order to maximize the benefits associated with employment creation and poverty reduction.
13. Further the analysis and understanding of the dynamics of poverty in Mozambique in order to guide the elaboration of effective policies for poverty reduction, since the crossing of information from the Multiple Indicator Cluster Surveys (MICS) and the National Agricultural Survey (TIA) show an increase in inequality in terms of income and access to basic services in urban/rural environments.
14. Ensure the incorporation of effective measures to combat poverty in the next Operational Plan of the Government.
15. Ensure the publication process of the results of the Household Budget Survey (HBS) within the set deadlines.
16. Ensure the alignment of the National Institute of Statistics' (INE) Strategic Plan with the Government's Cycle of Planning in order to influence policy development; ensure the review of the performance indicators matrix in light of the Government's new Operational Plan.
17. Ensure that the sectors integrate activities within the new strategy of HIV & AIDS in their planning and budgeting.

18. Ensure and improve the dialogue between the Government and the Partners on the implementation and impact of salary policy in the medium term.
19. Strengthen the decentralization process through capacity building at the base, preparation and communication of the criteria for allocation of resources, improved management of public finances as well as of the monitoring and evaluation system at the local level.
20. Strengthen the (Procurement Managing Unit) UGEAs' actions for capacity development with emphasis on the local level, to improve the implementation of the government procurement process, particularly in the proper usage of the direct award of contracts.
21. Deepening the programmatic nature and predictability of external assistance for short and medium term; reduce the number of missions; improve the use of national systems in line with their development; improve the registration of bilateral projects in the state budget; channelling of respective resources through the single treasury account; improve disbursements for the financing of projects and improve the provision of information about them.
22. Review the PAPs' PAF matrix and indicators contained in it at the PAP Planning Meeting; implement the recommendations contained in the Independent Report on the PAPs' Performance.
23. Evaluate and improve the structure and functioning of the Working Groups.
24. The Annual Review has noted the need for a National Co-operation Policy whose implementation will contribute to the coordination of aid effectiveness, as well as the development of actions to ensure progress in the area of governance.

III IMPLEMENTATION OF THE MEMORANDUM OF UNDERSTANDING

Requirements for the presentation of reports

25. The *requirements* of the MoU for such reports were followed by the Government in accordance with paragraph 28 of the MoU. These reports (PARPA, PES 2009, OE 2009, CFMP 2010-2012, BdPES 2009, REO 2009, CGE 2008, Report and Opinion of the Administrative Tribunal 2008) allowed an ongoing dialogue during 2010 and also served as the basis for the Annual Review 2010. It is worth mentioning that the Budget Execution Reports were produced quarterly and published with some delay (15 to 30 days). The presentation of the General State Accounts (GCE) data and the Reports on Budget Execution (REOs) improved significantly in 2009 with information that was more comprehensive and of better quality. These results were achieved due to the efforts of the Ministry of Finance and the continuous development of e-SISTAFE.
26. The Budget Working Group analyzed and assessed the profile (sectoral, regional distribution) of the MTEF 2010-2012 and the draft of the State Budget 2010.

The evaluation of the State General Account 2008 was also made and the respective opinion of the Administrative Tribunal, *vide* Budget Working Group's report.

27. An assessment of Public Finance Management using the standardized PEFA methodology was carried out for the first time in a province, Cabo Delgado. This assessment revealed that the public finance system has been improving. However, 50% of assessed indicators still show lower results compared with the national level. The public expenditure review (PER) in the Agriculture sector, public expenditure tracking survey in the education sector (PETS) (not conclusive), and the Public Financial Management (GFP) diagnosis in the Health sector shows that, despite some improvements with the introduction of e-SISTAFE, deficiencies and inconsistencies remain in data availability and on financial information on budget implementation at the most disaggregated level, limited coordination between plans and budgets, as well as poor implementation of internal control systems, leading to difficulties in assessing the quality and efficiency of public expenditure.

Dialogue and Reviews

28. The processes of monitoring and dialogue between the PAF Planning Meeting (September 2009) and the Annual Review have been successful both at global and sectoral level, being aligned with the GoM's planning and monitoring budget cycle. The Annual Review followed the agreed schedule and the use of Portuguese as the sole communication language, which facilitated greater involvement of stakeholders in the process.
29. In accordance with the Annual Review's ToR, the overall performance of the Public Financial Management (GFP) was evaluated in addition to issues specific to the PAF indicators, on the basis of a synthesis of the various reports made available during 2009. A comprehensive global analysis is included in Annex IV.

Audits

Performance audits

30. An audit of the sector of natural disasters was scheduled for the year 2010. Although the launch phase of the bidding has been finalized, this audit is facing delays and during the Annual Review it was agreed that the report would be submitted by the end of 2010.
31. The audit of the agrarian sector was scheduled for the year 2009 and should have been ready in March of that year. The audit has suffered repeated delays, and it is expected that the preliminary report will be completed in May and the final report in June this year. Intermediate results of the Audit were presented to MINAG, to the General Inspectorate of Finance and to PAPs on May 3, 2010.
32. Upon completion of the performance audit to the justice sector in 2009, the action plan for the implementation of recommendations was prepared. The General Inspectorate of Finance (IGF) and the Adviser of the Ministry of Justice are currently working on reconciling data regarding the current state of implementation of recommendations. Note that the process of implementation is lagging behind.

33. The process of implementing performance audits as well as adherence to the recommendations still has great constraints. Some aspects have been identified for a better reflection: the issue of deadlines together with risks of its failure; the criteria for selection of the sector/sub-sector to be audited; and the financing of audits. These will be subject of reflection and discussion between the Government and the partners and should be monitored and completed by the Joint Steering Committee before the Annual Review 2011.
34. The Annual Review 2010 has agreed to postpone the choice of a new area to be audited until the Annual Review 2011, to allow for a joint understanding on the constraints/questions raised concerning the performance audits.

Audit of the programmatic aid's financial records

35. The financial audit to the flow of funds from the program support to the Treasury Account in 2009 was made, but the final report and management report were delivered late. This is the third consecutive year that the audit report was not delivered within certain time limits and was not available in time for the production of the Annual Review. The Government and the PAPs agreed to find a practical solution in order to circumvent the repeated delays that have occurred in the availability of the Audit Report. It was decided that this search for solutions would take place at the next meetings of the Joint Steering Committee (JSC).
36. The auditors' opinion is that the financial statements presents a true and fair view of the Specific Transitory Account financial position as well as the flow of funds from the Forex Account and from the Specific Transitory Account in accordance with accounting principles and practices generally accepted. However, the auditors had a qualification in relation to one Partner (the World Bank), where confirmation of the Partner of the disbursement presents a discrepancy with the financial statements of 118 000 USD. In a later clarification the Partner confirmed that the amount indicated by the Ministry of Finance was the correct one, and was the amount disbursed by the Partner.
37. The auditors drew attention once more to the collection of fees not agreed on four (4) transfers and the fact that three (3) transfers exceeded the time limit of two working days stipulated for the transfer from the Forex account to the Transitory account. The Annual Review found that the same observations are repeated year after year, whereby it was decided to also discuss these issues in the Joint Steering Committee (JSC) in order to solve them in time for the next Annual Review.

Audit of the State Accounts

38. The quality of the Report and Opinion of the TA on the State General Account in 2008 showed a marked improvement. However, access to the document and its dissemination remains limited. In the first quarter of 2010 the document was not yet available on the website (www.ta.gov.mz), contrary to previous years. The Annual Review noted with satisfaction that some recommendations originating in the Administrative Tribunal's Opinion from previous years were implemented. However, the Opinion on the State General Account 2008 includes findings and recommendations, which are repeated every year. These recommendations include the need to:
 - Strengthen the enforcement of legislation on procurement;

- Use the Treasury Operations appropriately in relation to predictable expenses;
- Improve transparency on the issue and reimbursement of Treasury Bills and how these transactions are reflected in the State General Account;
- Strengthen budgeting and collection of own and allocated revenues;
- Correctly classify subsidies to public and private companies in accordance to the legal basis and incorporate the Public Enterprises' assets in the State General Account;
- Complete inventory of the State Holding;
- Resolving the issue of inconsistencies between data in the State General Account and the data in specific accounts of the various budget units.

LIST OF ACRONYMS AND ABBREVIATIONS

ACRONYM / ABBREVIATION	MEANING
AAA	Agenda de Acção de Acra – AAA – Accra Agenda for Action
AAE	Avaliação Ambiental Estratégica – SEA – Strategic Environmental Assessment
ADEL	Agência de Desenvolvimento Económico Local – Local Development Agency
AF	Agregado Familiar – Households
AGO	Apoio Geral ao Orçamento – GBS – General Budget Support
AIDI	Atenção Integrada às Doenças da Infância – IMC – Integrated Management of Childhood Illness
AM	Aide Memorie
AR	Assembly of the Republic
AT	Technical Assistance
ATM	Tax Authority of Mozambique
BAD	Banco Africano de Desenvolvimento AfDB – African Development Bank
BAU	Balcão de Atendimento Único
BAU	Banco Austral
BdPES	Balance of the Economic and Social Plan
BPN	Low Birth Weight
CFMP	Cenário Fiscal do Médio Prazo – MTEF – Mid-Term Fiscal Scenario
CGE	State General Account
CIDA	Canadian International Development Agency
CIDE	Centre for Ethno botany Research and Development
CIRESP	Inter-Ministerial Committee for Public Sector Reform
CM	Council of Ministers
CMC	Community Multimedia Centre
CNCS	National AIDS Council
COEB	Basic and Essential Obstetric Care
COEC	Comprehensive Coverage of Emergency Obstetric Care
CONDES	National Council for Sustainable Development
COP	Conference of the Parties
CPAR	Standing Committee of Parliament
CT	Science and Technology
CT	Technical Cooperation
CTA	Confederation of Mozambican Economic Associations
CUT	Single Treasury Account
DAS	Department of Water and Sanitation
DFID	UK Department for International Development
DHAA	Human Right to Adequate Food
DINAGA	National Directorate for Environmental Management
DNA	National Directorate of Water
DNO	National Directorate of Budget

DUAT's	"Right to Use and Utilize Land" – Mozambican Land Law
EAC	Anti-Corruption Strategy
EDM	Mozambican public company supplying electric power
EITI	Extractive Industry Transparency Initiative
EP1	Elementary School 1 st grade
EP2	Elementary School 2 nd grade
ESF	External Shock Facility
e-SISTAFE	SISTAFE's electronic system
FMI	Fundo Monetário Internacional – IMF – International Monetary Fund
FUNAE	National Energy Fund
GdM	Governo de Moçambique – GoM – Government of Mozambique
GFP	Public Finance Management
GMD	Debt Mozambican Group
HIV	Human Immunodeficiency Virus
ICE	Specific Consumption Tax
IGEPE	Institute for National Property Management
IGF	General Inspectorate of Finance
IMF	Micro Financial Institution
INAQUA	National Institute for Aquaculture Development
INAS	National Institute of Social Action
INE	National Institute of Statistics
INGC	National Institute for Natural Disaster Management
inSAN	Food and nutrition insecurity
INSS	National Social Security Institute
IOF	Inquérito sobre Orçamento Familiar – Household Budget Survey (HBS)
IPAJ	Institute for Legal Aid and Sponsorship
IVA	Imposto Sobre Valor Acrescentado – VAT – Value Added Tax
JSC	Joint Steering Committee
LOLE	Law of the Local Organs of the State
M&A	Monitoring and Evaluation
MAE	Ministry of State Administration
MCI	Interbank Foreign Exchange Market
MCT	Ministry of Science & Technology
MdE	Memorando de Entendimento – Memorandum of Understanding (MoU)
ME	Ministry of Education
MF	Ministry of Finance
MIC	Ministry of Industry & Commerce
MIC (s)	International Foreign Exchange Markets
MICOA	Ministry for Coordination of Environmental Action
MINAG	Ministry of Agriculture
MINT	Ministry of the Interior
MIREM	Ministry of Mineral Resources
MISAU	Ministry of Health

MMAS	Ministry of Women's Affairs & Social Welfare
MOPH	Ministry of Public Works & Housing
MP	Ministry of Fisheries
MPD	Ministry of Planning & Development
MT/USD	Metical / USD
OCDE	Organization for Economic Co-operation and Development
OCI	Organs of Internal Control
OCI's	Organs of Internal Control
OD	Development Observatory
ODAMOZ	Official Development Assistance for Mozambique
ODMs	Millennium Development Goals
ODP	Provincial Development Centre
OE	State Budget
OI	Investment Budget
OIIL	Investment Budget for Local Initiative
ONG	Organização Não-Governamental – NGO – Non-Governmental Organization
PA MA	Support Program for Rural Markets
PAMS	Poverty Monitoring and Evaluation System
PAP	Programme Aid Partners
PAPA	Action Plan for Food Production
PAPs	Programme Aid Partners
PARPA	Poverty reduction strategy plan
PDs	Development Partners
PECODA	Programa de Educação, Comunicação e Divulgação Ambiental – Program of Education, Communication and Environmental Dissemination
PEDD	District Strategic Development Plan
PEDSA	Strategic Plan for the Development of the Agrarian Sector
PEE	Program for Strategic Education
PEEC	Strategic Plan for Education and Culture
PEFA	Public Expenditure Financial Audit
PEI	Integrated Strategic Plan
PEN	National Strategic Plan against HIV / AIDS
PEPFAR	Presidents' Emergency Plan for AIDS Relief
PER	Public Expenditure Review
PES	Economic and Social Plan
PESOD's	Economic and Social Plan and District Budget
PES PA	Strategic Plan for the Artisanal Fisheries' Sub Sector
PETS	Public Expenditure Tracking Survey
PIB	Produto Interno Bruto – GDP – Gross Domestic Product
PME	Small & Medium Business
PPFD	Program for planning Decentralized Finances
PROAGRI	National Program for Agricultural Development
PRODEZA	Project for Rural Development Support in Zambezia Province
PROMER	Program for Promotion of Rural Markets

PRONEA	National Agricultural Extension Program
PRSAUDE	Health Program
PSA	Food Subsidy Program
PSI	Policy Support Instrument
PSMP	Medium Term Salary Policy
OAD	Quadro de Avaliação do Desempenho – PAF – Performance Assessment Framework
RA	Annual Review
RAI	Impact Evaluation Report
RDC	Democratic Republic of Congo
REDD	Reducing Emissions from Deforestation and Forest Degradation
REMTILD	Mosquito Net Treated with Long Lasting Insecticide
REO	Budget Execution Report
RIL	Net International Reserves
RSP	Public Sector Reform
RTV	Community Broadcasting Radio and Television
SADC	Community for the Development of Southern Africa
SAN	Food Security
SBS	Sectoral Budget Support
SC	Civil Society
SCI	Internal Control Subsystem
SETSAN	Technical Secretariat for Food Security and Nutrition
SIGEDAP	Performance Management System In Public Administration
SINAS	National Information System on Water and Sanitation
SISTAFE	Integrated system for State Financial Management
TA	Administrative Tribunal; Audit Court
TARV	Tratamento Anti-retroviral – Anti-Retroviral Treatment – ARVT
UFSA	Procurement Functional Unit
UGEA	Procurement Managing Unit
UTRESP	Public Sector Reform Technical Unit