



REPUBLIC OF MOZAMBIQUE



PROGRAMME AID PARTNERS

***ANNUAL REVIEW
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Pillars' Reports

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Macroeconomic Management and Poverty

Global Analysis

The performance of the Government in the area of Macroeconomic Management and Poverty in 2009 was positive overall, and there has been a good performance on growth and macroeconomic stability, and in the management of public finances; in the latter some challenges should also be noted mainly on the consolidation and development of reforms aimed at improving efficiency and transparency in expenditure on the management of state assets as well as the management of procurement and defense of its integrity. There is still a lack of relevant analytical information on the translation of the results of economic growth and public spending into improving living conditions and an effective reduction of poverty levels and this remains a major challenge. Once the results of the poverty analysis conducted in 2009 are known, this may be better understood and translated into more effective policies and strategies for its approach, which should complement the analysis begun with the implementation assessment of PARPA II.

Of the nine PAF matrix indicators for the pillar, eight could have their targets classified, among which five targets were met (the provincial development observatories, the aggregate expenditure, collection of state revenues, internal control and on external audit), 2 were not met but progress was made (the level of implementation of SISTAFE by direct means and improvements in the state procurement system¹) and one was not achieved (the alignment of resource allocation in the budget and MTEF). The indicator on the implementation of the recommendations for the execution of PETS in the education sector was regarded as “not classifiable” in terms of government performance.

Growth and macroeconomic stability

The macroeconomic performance in 2009 was in general satisfactory. Despite the negative effects of the global economic crisis on exports and private external financing, real GDP grew by 6.3%. This growth represents a slowdown compared to the year 2008 (6.7%) and to that predicted in the PES (6.7%). Relevant sectors for GDP growth were Agriculture, whose real value added grew by 11.2%, Electricity and Water (9.2%), Construction (10.5%) and Financial Services (13.9%). The sectors most affected by global economic crisis were the Mining Industry, whose real value added growth slowed to 5.7%, Tourism (1.4%) and Transport and Communications (-1.4%).²

The global economic crisis facilitated the control of inflation in 2009. The fall in international prices caused by the retracement of global demand as well as by maintaining the subsidy on fuel prices by the Government, contributed to slowing the average annual inflation³ from 10.3% in 2008 to 3.3% in 2009. The international situation also affected the evolution of exchange rates. The reduction in exports, transfers and foreign loans to the private and public sectors, combined with the expectations of economic agents and the strengthening of the dollar in international markets, resulted in a 14% nominal

¹ Note that there is a difference in the evaluation of the indicator on public procurement between the government and the PAPs, the GoM having considered the goal as achieved.

² The source of growth rates is the National Institute of Statistics – INE (National Accounts of the Fourth Quarter 2009).

³ Maputo City continues to be taken as the benchmark for inflation.

depreciation of the exchange rate MT/USD, which corresponded to an effective real depreciation of 5.0%, rebalancing the strong appreciation that took place in 2008.

Despite the real depreciation of the Metical, the reduction in global demand resulted in a substantial drop in export earnings in Mozambique. The total value of goods exports in 2009 decreased by 30.2% compared to 2008. On the other hand, the reduction in international prices contributed to the reduction in expenditure on imports by 11.0%. This fall, coupled with a greater decrease in exports, resulted in a worsening of the trade deficit to USD 400.3 million.

Despite the worsening balance of payments in general, the IMF's Initiative to Boost Global Liquidity of USD 170 million, a reduction in the repatriation of profits by the megaprojects, disbursement of foreign aid to support the State Budget (OE) and the Balance of Payments (BOP) amounting USD 467.6 million, as well as increased foreign direct investment by 49%, helped to improve the current account and maintain a satisfactory level of net international reserves (NIRs). The NIRs reached USD 1,841 million, equivalent to 5.7 months of imports, up from the 4.5 months in 2008.

The weak exposure of the domestic financial system to the international system minimized the impact of the international financial crisis. Faced with increasing demand for credit by domestic companies, as a result of financing difficulties in the international market, the banking credit to the economy expanded by 59% in 2009, reflected in a greater availability of resources in the economy. Interest rates also showed a downward trend reflecting adjustments made in the rates of the Bank of Mozambique (BM) in response to observed low inflation. The average interest rate on Metical loans from the credit institutions for a period of one year decreased in 2.64 PP (percentage points) in 2009.

Although the global economic crisis has adversely affected the tax revenue collected from megaprojects, the state revenue in 2009 grew by 13.9% in real terms, surpassing the figure programmed into the State Budget (OE) by 2.6%. However, investment spending remained at 74.3% of the programme, explained by the poor performance reported in the external component, which stood at 64.6% of the programme. Nevertheless, expenditure on priority sectors showed improvement in the level of implementation, having grown from 77% in 2008 to 82.6% in 2009. However, as a proportion of total expenditure without the burden of debt, spending on priority sectors declined from 64.5% to 61.6%. It should be noted, however, that significant resources were used for a general subsidy for fuel prices in order to safeguard the stability of the general price level in the economy. This measure had the disadvantage of being biased, favouring the higher revenue layer. A World Bank study suggests that over 70% of the subsidy benefits are appropriated by the richest 20% of the population.

In general, challenges posed by the international economic environment in 2009 have not destabilized the management of macroeconomic policy, and the real sector, the fiscal and monetary sectors and respective policies in support of economic growth remained stable, firstly ensuring credit expansion to the economy in the face of reduced external flows of private capital and, secondly, ensuring the implementation of public investment in priority sectors.

However, it is important to note that economic growth still has not been consistent with a greater diversification of the production base and exports, nor with significant improvements in the structural competitiveness of the economy. The external competitiveness registered in 2009 primarily reflected a deceleration of domestic inflation due to falling international prices, rather than significant

improvements in structural aspects of the economy that promote the reduction of transaction costs and improve the business environment. These structural weaknesses continue to constrain the expansion and diversification of the production base by small and medium enterprises. Thus, economic growth remains significantly sensitive to large companies targeting the international market. Indeed, the deceleration of growth and decline of exports in 2009 was largely a consequence of the high concentration of exports from companies oriented towards foreign markets.

For 2010, growth and macroeconomic stability which favors the poor and disadvantaged through the creation and expansion of employment opportunities, income generation and access to food, health care and sanitation will remain a challenge. In this sense, the expansion and improvement of public investment is an area that should receive continued attention.

Analysis of poverty

The elaboration in 2009 of the PARPA II's Impact Evaluation Report (IER 2009), covering the period 2006-2009, stood out as being a collaborative process that allowed the strengthening of the dialogue between the Government and partners on policies to reduce poverty. However this assessment does not contain information on equity and poverty indices due to the unavailability of the results of the Household Budget Survey (HBS) 2008/09 with relevant analytical and statistical information on the impact of the PARPA. Several studies were conducted in this context to contribute to a deeper analysis of the results achieved, of which the following stand out:

Inequality: data from the Multiple Indicator Survey (MICS) and from the Agricultural Survey (TIA) indicate that inequality may have increased in Mozambique during the period under review, both in terms of income as well as access to basic services. Moreover, qualitative studies show that inequality has increased mainly in urban areas with emphasis on the city of Maputo.

Studies on *vulnerability and chronic poverty* indicate likewise that 34.8% of households in Mozambique are subject to a situation of great vulnerability to food insecurity. In rural areas the vulnerability is strongly linked to the low diversification of income activities, to low productivity farming systems with little crop growing diversification, fragile in the face of climatic shocks and difficulties in accessing markets. In urban areas where people buy on average 72% of their food, price rises are a major shock. These trends must be confirmed with qualitative data to be available in 2010.

Child Poverty: Analysis of data from the Demographic and Health Survey – IDS 2003 and from MICS 2008 indicates that levels of severe deprivation among children decreased, from 59% in 2003 to 48% in 2008. This reduction was due mainly to the good performance recorded in the sectors of health and education. Nevertheless, Zambezia province still faces the highest levels of severe deprivation (80% in 2003 and 64% in 2008). Nutrition and sanitation showed moderate improvements. A reduction in the prevalence of chronic malnutrition in children under five years of age was also noted, from 48% (IDS 2003) to 44% (MICS 2008).

Since 2005, The Human Development Index (HDI) in Mozambique has registered a slight improvement from 0.390 (2005) to 0.402 (2007). Of the three components that make up the HDI, it is particularly in life expectancy that progress has been registered.

In response to the subject of special attention on the need to ensure, in the medium term, greater equity and efficiency in resource allocation by improving the approach to planning and budgeting

programmatic MTEF and related instruments, significant progress has been recorded in greater prioritization of resource allocation based on programmes targeted for poverty reduction, greater involvement of the central institutions and provinces in the formulation and justification of the proposals as well as a broader inclusion of predictability of external resources.

With respect to the subject of accelerating the decision making on special measures to mitigate the effects of the crisis on the poorer sections of the population, among others, in the area of Social Protection – the Government, with support of partners, developed the draft National Strategy for Basic Social Protection that has, among other objectives, the extension of services to cover a larger number of beneficiaries. The challenge of implementing this strategy remains.

Public Finance Management

Overall there was progress in the area of Public Finance Management (PFM), essentially marked by the consolidation of reforms initiated earlier. Nevertheless significant weaknesses and challenges remain to be faced.

The main achievements during the year were improving implementation and further expansion of e-SISTAFE, with a gradual increase in the execution of expenditure by the direct route, an increase in the coverage and number of audits by the Administrative Tribunal (TA) and a strong performance in collecting the state revenue. Slower developments were registered in: i) the process of strategic medium term resource allocation and greater coordination with the annual process of budgeting and costing of targets, as well as liaison with the provincial and district levels; ii) the internal control and audit system, with an increase in the number of units established but a lack in clarity about its role in the different budget organizations and functional relationship with the General Inspectorate of Finance; iii) on the area of state procurement, where there was an institutional consolidation of the supervision unit (Functional Unit for Supervision of Procurement – UFSA) and expansion of the reported cases to UFSA, but no evidence of significant progress on the transparency and integrity of the system, in part a result from an incipient information base for monitoring and evaluation.

The results of some studies and audits on the Public Finance Management system (PFM) at the sectoral level were made available during 2009, based primarily on data from 2008, which may contribute to an assessment of progress in reducing fiduciary risk. However, in general the great challenge remains of how to use the findings and recommendations and translate them into concrete coordinated actions, and of real improvement and strengthening of the interconnections of the PFM system across different levels and sectors of government. The public expenditure review (PER) in the sector of agriculture, research and location of spending in the education sector (PETS) (not conclusive), and the diagnosis of Public Finance Management in the health sector shows that despite some improvements with the introduction of e-SISTAFE there remain shortcomings and inconsistencies in data availability and financial information on budget execution at the most disaggregated level, coordination between plans and budgets is limited, as well as poor implementation of internal control systems, leading to difficulties in assessing the quality and efficiency of public expenditure. A common feature of these studies, and also highlighted in the performance audit of the justice sector and the Opinion of the TA on the General State Account 2008, are the problems in implementing the management system for state procurement with no full implementation of the respective legislation, in particular about the unjustified use of the private treaty method in public procurement. It should further be noted that for the first time a PFM

assessment was performed using PEFA methodology in a province (Cabo Delgado), which shows that despite improvements in the system, 50% of the indicators showed worse results than their national level equivalents and 10% showed better.

Concerning the Opinion on the General State Account 2008 there are improvements in its quality and also that the government responded positively to some previous recommendations of the TA. However, this also includes findings and recommendations that are annually repeated and appear to be somewhat of a structural nature, such as the problems in implementing legislation on procurement, the classification of costs and inappropriate use of treasury operations for unforeseen expenditure, in budgeting and collection of revenue. In terms of monitoring critical issues that have been raised, the partners consider it important to give the necessary attention to the management of state assets (including public enterprises and state shares), with a view to greater transparency, inclusiveness in accounting, control and management efficiency as well as better assessment of consolidated risk.

Brief Assessment on the 2010 State Budget draft

The 2010 Budget continues to actively pursue the Government's objectives of **fiscal expansion**, proposing to increase public spending from 30% in 2009 to 38.7% of GDP in 2010. This increase would be financed mainly by increasing domestic revenues (from 17.8% to 18.4% of GDP), by a significant increase in domestic credit (from -0.8% to 2.8% of GDP) and through external funding estimated at a level significantly above the figures recorded in previous years (17% of GDP, against 12.7% of GDP, executed in 2009). This leads to a significant increase in the overall budget **deficit**, although the domestic primary deficit would be less affected.

The outlook for revenues and expenditures in 2010 is significantly higher than estimates that were included in the MTEF 2010-2012, reflecting a more positive forecast of economic performance, but also indicate a strong political impulse to strengthen the government's role in financing economic development. It is expected that the increase in **domestic revenue** be largely achieved through increased tax revenues, particularly in income tax. The proportion of VAT and customs duties in relation to GDP remains stable, except for an associated increase in excise duty (ICE). **Own revenues** are included in the broader category of "other income", with a slight increase (from 1.4% to 1.5% of GDP). The Budget Law includes a provision that allows the budgeting of additional own revenue collected by a unit, or Balances not being used.

Most of the increase in **external revenue for 2010** is allocated to finance projects (both donations as credits). This raises concerns about the realism of the prevision, which obviously also leads to some doubts about the realism of the investment budget in some sectors that include high levels of external funding (such as infrastructure), considering the absence of a clearer perspective about how the execution levels in 2010 will be improved, which also affects the global scenario about the relative shares in the sectoral allocations.

The 2010 budget shows a significant increase in **domestic financing**. **The Government should develop** an appropriate strategy for raising these funds and to ensure that the overall impact of this increase in access to credit by the private sector is limited.

Compared to the budget execution in 2009, OE 2010 indicates a significant increase in **investment** (11.5% to 18.3% of GDP) and a less significant increase in current expenditure (16.7% to 18.8% of GDP). Within current expenditure, we note an increase in payroll (from 8.6% to 9.7% of GDP) and pensions (from 1.9% to 2% of GDP). The budget for goods and services goes from 3.5% to 3.4% of GDP, raising the concern that if this category is reduced, problems could be created for operational services. An increase in subsidies to businesses is also noted, mainly because the **subsidy on fuel** (budgeted at 1.2 billion in 2010) is now explicitly mentioned and included in the category of subsidies. Given the recent decision on the phasing out of the fuel subsidy, the question arises whether the amount for this allowance in the current budget is still accurate.

The assessment of the trend in **strategic allocation to sectors and priorities** was a little more complicated because there was no table with the priority sectors or with the functional classifier included in the budget. The budget now includes a wider application of the programmatic approach, but, obviously, there is not a time series available on the appropriations in accordance with the programmatic classifier. The preliminary figures seem to indicate the following global trends in sectoral allocation (based on the organic classifier):

- A significant increase in allocation to the **Infrastructure Sector**, which significantly increases its share in the overall budget. In this sector, the roads appear to have the largest increase.
- The allocation to the **Sector of Agriculture** seems to be generally maintained at the level of last year's budget, which was already above the previous years. We also noted a significant increase in allocation to the Fisheries Sector.
- The allocation for **Education** and especially for **Health** are declining in relation to total spending. Concerning Health there seems to also be a reduction in nominal terms compared with the budget and the implementation of 2009. For the **Water** sector, there also seems to be a reduction.

The partners' preliminary assessment raised the following questions for discussion:

- The desire for a rapid expansion of investment projects in infrastructure creates some risk that the projects are not subjected to a sufficiently rigorous cost-effectiveness and impact analysis, which are particularly relevant when these are financed through non-concessional funds.
- Since 2006 there has been a progressive decrease in the percentage of the budget for the health sector (as reported in the budget). In this context, it would be helpful to have a clear vision of all funds available to the sector (including all external funds, particularly given the position of the Global Fund and other vertical funds and PEPFAR), and to what extent these affect the appropriation for the sector.
- Given the importance of expenditure for rural development, it is important to have a clearer picture on how the transfer of powers between the MPD and the MAE has an impact on budget allocation for rural development.

The budget proposal clearly argues for greater implementation of programme budgeting, applied to all expenditure. It is expected that the definition of programmes and their respective resource allocation will continue to improve in coming years, which will complicate the annual comparisons. In these

circumstances, it is important that the budget continues to include information in accordance with the classifiers that are stable and have been used in the past, particularly the functional classification.

Analysis of PAF indicators' performance

Poverty analysis and monitoring systems

The target for the 2009 PAF's indicator "Number of **Provinces with Provincial Development Observatories** (ODPs) executed" was met. The provinces made their ODPs in the first semester of 2009, in the frame of the annual planning cycle. The provinces of Niassa and Maputo City deserve to be highlighted for holding a second session of the ODP in the second semester. These are a key mechanism for participatory monitoring, already consolidated at all levels, despite the challenges related to assessing the quality of the forums and the establishment of a mechanism to better fit the remaining recommendations.

Regarding the Planning System two important advances were made: (i) the establishment of a schedule for the consolidation of the National Planning System, clarifying functional links between the various planning tools, skills and responsibility levels concerning planning instruments, budgeting, implementation, monitoring and evaluation and the scope and deadlines for different instruments; (ii) update of the Preparation Guidelines of the PES/BdPES introducing the programmatic approach, which began already in the preparation of PES 2010, so that this instrument is in line with the MTEF and the State Budget, with the structure oriented to a matrix form, prepared on the basis of the activities included in the Budgeting Preparation Module and linked to programme objectives.

The main challenges are: (i) the effective implementation of the Guidebook including preparation of summaries and the establishment of a mechanism for addressing and monitoring of the recommendations resulting therefrom, (ii) the completion of a methodology for the qualitative assessment of the indicator on ODPs, (iii) the lack of access to updated information on key aspects of poverty. For availability of statistical information, it is important to ensure that the National Institute of Statistics' Strategic Plan is aligned with the Government's planning processes to facilitate monitoring and evaluation of policies, the PARPA and its implementation.

Budget Analysis

The **aggregate fiscal performance** in 2009 was positive, considering the adverse external factors. Implementation rates for income and expenditure were high (the PAF indicator's target on aggregate expenditure as % of approved State Budget was met), leading to an overall fiscal expansion rate of about 13%. This figure also includes costs for fuel price subsidies, which were not initially planned. The subsidies have raised concerns about the high cost and tax risk in case of persistent rise in prices internationally and about the difficulty there was to target its benefits to particular groups. There is also a record of increased costs for salaries and pensions, by implementing the new salary policy. In this regard it is noted that while spending on wages and salaries is within the budget originally envisaged, these amounted to 9% of GDP. In terms of sectors, agriculture had the largest increase in expenses, while other priority areas showed more moderate increases.

The process and budget cycle were influenced by the fact that 2009 was an election year and marked especially by uncertainties arising from the international financial crisis and fuel prices. The MTEF was approved late because of the need to reconcile the data with measures adopted by the Government to mitigate the effects of the crisis. The budget will be approved in April 2010 by the new Parliament. The **alignment between the State Budget and the MTEF** was not strong with the delayed adoption of the MTEF and by changes in the overall fiscal framework. Therefore, PAF's indicator 3 was not met. The Government is encouraged to promote the dissemination of budgets and budget execution reports, particularly considering the disclosure in electronic formats through the Ministry of Finance's web portal.

In 2009 there were improvements in the quality of budget and budget reports, and consideration of various matters pertaining to the scope of the budget, which need to be addressed. This includes the registration and accounting of own revenues, assets of the entities in the budget and State Companies (including holdings of the State). The Government and donors also need to promote efforts to further improve the budgeting and reporting on the external component of investment as well as increase the use of national systems for the development and implementation of projects.

PETS was conducted **on the education sector**, but the parties agreed that there are open questions as to how far the work done measured up to the target, approach and results for the year. A preliminary report is available, but the quality and content is below expectations. Therefore, further actions that were planned, such as drafting an action plan, were not initiated. It is important to note the lessons learned from this process in order to benefit the future PETS exercise, the Government having confirmed that it will be started in the Health sector in 2010. The Government and the partners agreed therefore that this target could not be considered in terms of government performance.

SISTAFE

The year 2009 showed progress in implementing the SISTAFE, although the activities undertaken were basically the continuation of actions initiated last year. The target of the indicator on the **rollout and use of e-SISTAFE** was not achieved but progress has been made. This is an indicator that encompasses several components reflecting the different levels of direct enforcement. Regarding the component of the percentage of direct operation of UGEs' (units that already have e-SISTAFE) total expenditure for goods, services and investments, the target in the PAF for 2009 was met, since 97% were executed by the direct route by the end of 2009. Regarding the component of the percentage of total expenditure on wages paid by the direct route, the target set in the PAF in 2009 was not met but some progress was noted since 20% of overall expenditure on salaries was paid by the direct route through the mechanism of e-SISTAFE. Regarding the component of the percentage of total expenditure on pensions, the target was met with 68% paid by the direct route. Looking at the global level through direct enforcement in relation to total expenditure (including external financing and excluding units that do not have e-SISTAFE), it is noted that the level of direct enforcement reached 28%.

The target on the implementation of wages was not met due to technical factors and economic conditions. There are currently three systems for calculating salaries, one for each region of the country and there is no module yet that integrates the three systems, so the strategy chosen by the government to start paying salaries via direct e-SISTAFE was to start the process at the central level and in Maputo

City. Moreover, the registration process did not cover defense and security officials by the specificity of their functions, so their salaries cannot be paid by the direct route and they have a considerable representation in the budget. For the process of direct salaries payments to be fully implemented, and throughout the country, the purchase of a computer application that integrates the three existing systems and is appropriate for e-SISTAFE is required, and this is dependent on funding.

State Revenue

Throughout 2009, the Tax Authority (TA) was able to exceed the general target of collecting revenue, although in a not so favorable economic environment. **Total revenues** in 2009 represent 17.53% of GDP, therefore meeting the 16.9% target of the PAF indicator.

This level of recovery was achieved despite an inflation rate of only 3.7% (significantly less than expected), with a target in nominal terms exceeded by 3.4%. In 2009, the targets were exceeded for recovery particularly in taxes on corporate income (IRPC + Exonerating Tax), where the recovery exceeded the target by 19%, resulting in growth of nominal income from taxes in this group of 28% relative to the amount collected in 2008. The exonerating tax recovery in 2009, compared to the year 2008, decreased by 3.8% mainly due to a reduction in the price of aluminum. The amount collected in income taxes was 13.7 billion Meticaís, i.e. 28.9% of total collected revenue. The tax with the greater impact is VAT, which represents 35.6% of total revenue, broken down into 14.9% VAT on domestic sales and 20.7% VAT charged on imported goods.

In terms of the furtherance of reforms during 2009, the Tax Authority continued to expand the collection network outside major cities, and opened 26 new areas of taxation. The implementation of the project Electronic Single Window (JUE) progressed - a contract was signed with the Confederation of Business Associations of Mozambique (CTA) and a private company to implement the system that will allow users to interact electronically with the tax authorities. A new streamlined version of the Code of Tax Benefits and the Law on Simplified Tax for Small Taxpayers (ISPC) were adopted, which aims to simplify taxes and the gradual integration of informal businesses in the formal sector. Scanners were installed at the airports of Maputo, Beira and Nampula. The conceptual model of the IT project e-Tax was approved by the Finance Minister, which will facilitate the collection and management of taxes. The Planning Strategy for e-Tax is being elaborated, whose approval is expected by mid-May 2010. The e-Tax system will also cover payment through banks, which could represent a substantive improvement to the business environment.

Procurement

The partners working group believes that the PAF indicator for 2009 on the **Procurement system's Operability** has not been met but progress was made, particularly noting the increase in the Functional Unit for Supervision of Procurement's (UFSA) record of contracts concluded by the various Procurement Management Units (UGEAs). This indicator is intended to monitor, through 6 sub-indicators, progress in three areas of acquisition system/procurement: a) the system's institutional architecture, b) system operations, and c) integrity of the system.

Aspects assessed as not met (in 3 sub-indicators) are: i) 95% of 1050 constituted UGEAs do not effectuate procurement (achieved rate of 75%), ii) there is convincing evidence that the non-existing basis for private treaty contract continues to be a major problem in the procurement system, iii) there has been little progress in implementing an Action Plan to establish a monitoring and evaluation system to measure the integrity of the procurement system.

Note that this evaluation of the partners has not been agreed by the government's counterpart, the Functional Unit for Supervision of Procurement (UFSA), particularly on the sub-indicator of contract via private treaty. A major factor of difference of opinion relates to the fact that the UFSA database has serious limitations, which calls into question the accuracy of any evaluation. It is important to note that, according to conservative projections, the data collected by UFSA on tender procedures and purchasing cover 55% of the total estimated (conservative) government procurement. This calculation does not include any expense of the foreign investment component, although some of these funds use the national procurement system. Furthermore, the UFSA data is based on UGEAs' self-declaration. However, credible supervision of this by UFSA is limited due to technological constraints, financial and human resources. It is therefore considered that for reasons beyond the control of UFSA, available data on procurement does not faithfully represent the total universe of the state procurement.

Therefore, the partners have supplemented their assessment with data and information from the TA, IGF, external audits and other reviews that in all cases indicate the existence of great challenges in UGEAs' capacity of properly implementing Decree 54/2005. Reference is particularly made to the repeated observation that the use of private treaty has not been properly justified under the terms of the Decree, and that no such case was reported to the UFSA by the UGEAs. Though it was not specified in the Technical Note, this additional information shows clearly and credibly, also for the Government, that the UFSA database cannot be regarded as the sole source of verification for this indicator. This is the key factor to the conclusion that, despite the progress observed, mainly in terms of institutional architecture, one cannot consider as met the target on improving the operability of the system, including improving the basis for evaluating the improvement of transparency and integrity.

Since this is still an aspect of the Technical Note for the indicator in 2010, the Working Group will work jointly to agree on means to supplement the information collected for UFSA and measure progress against various established targets for the PAF indicator this year.

In the medium term and to address this situation, it is crucial to fully implement the recommendations of the CPAR 2008, agreed by the government, posing as an immediate priority the improvement of the UFSA's monitoring and evaluation system. In general, the Working Group considers that the full implementation of identified "*quick wins*" in the Action Plan of the Country Procurement Assessment Report (CPAR) should be the basis for assessing the performance of the procurement system during the next few years (after PARPA II), since this action plan identifies specific activities that may, in the medium term, improve key aspects of management, transparency and integrity of the entire system. To do so it would be important to arrive at a formal agreement on the schedule needed to implement the various actions identified in the report.

Internal Audit

In 2009 the target for the **Internal control** was 75% of the Organs of Internal Control (OICs) in operation, and was fully met. Until 31 December 2009, 26 OCIs were operational at central level (the universe is 34) and 36 OCIs at provincial level (the universe is 49), which totals 62 OICs in operation (the universe is 83).

Of these, 13 had no internal regulations, 6 at the central level and 7 at the provincial level. The lack of regulations is due to: restructuring of some ministries, lack of statute and lack of capacity for drawing up the document, especially in the provinces. The interaction with the various Organs at central level and, above all, at the provincial level accelerated the process of operationalizing the OCIs.

With regard to financial management, in 2009 the IGF had five sources of direct financing, 56,554.94 thousand Meticaís having been spent, which corresponds to an execution ratio of 76% of the budgetary resources available (74,251.98 thousand Meticaís) distributed as follows: i) Internal Resources (General State Budget) 85%, and ii) External Resources (Irish Cooperation, Norwegian Cooperation, Swedish Sida and French Cooperation) 76%.

Concerning performance audits to the Agricultural and Natural Disasters sectors, these have not been finalized within the time originally set for reasons that now have been clarified and accepted. The Audit Report to the agricultural sector is expected in June and the report on Natural Disasters in September this year.

The main challenges in the area of Internal audit are: i) Improving the monitoring of recommendations in the database in order to ensure a greater impact of the audit process; ii) Reflect with partners on how to improve the performance audit process in order to eliminate the delays in finalizing the reports since the current model is not effective; iii) Ensure the continued development of the General Inspectorate of Finance (IGF) in order to become a modern audit institution and act with international standards, which ensures the application of necessary standards and requirements to guarantee the independence, objectivity and proficiency of the internal audit activity; iv) Improving the dissemination process of the difference between internal control and internal audit; and v) Improving the institutional relationship with the Administrative Tribunal in order to guarantee greater complementarity.

External Audit

The target of the indicator on **coverage of State Budget audited by the TA** was met (34.82%), having followed the technical standards of INTOSAI and the Mozambican legislation. It should be noted however, that the percentage of 2.1% with respect to revenue not budgeted was included within this indicator.

The audit works and other activities undertaken by the Administrative Tribunal, such as the public disclosure of instructions for compulsory execution, has focussed the attention of public officials on the growing need to provide accounts about the use of public funds. This aspect deserves mention because it represents the consolidation of a culture of accountability. In 2009, the record number of 629 entities provided accounts to the Administrative Tribunal.

In 2009, the TA has exceeded the target set for the number of audits performed, totaling 491 audits. The Administrative Tribunal (TA) has strengthened the monitoring of its decisions, having applied financial sanctions to 226 managers.

The TA should continue to make efforts in order to disseminate the results of its trials and the Report and Opinion on the General State Account-RPCGE in an accessible and timely manner to citizens. The RPCGE for the fiscal year 2008 is being published in the BR (Boletim da República) and on the Administrative Tribunal's web site.

Regarding the audits, there is a need to make this process faster, especially increasing the number of cases heard. There is a very large and growing gap between audits and processes judged.

With respect to prior inspection (Approval), the passage of new TA legislation for the Third Section is noteworthy. This waives approval to a considerable number of documents relating to personnel and gives the Assembly of the Republic the right to establish an annual threshold below which contracts not related to staff (procurement) need not be submitted for approval by the TA, although subject to later inspection. It should be noted that this change, long awaited, reinforces the need to act more effectively in internal control.

Report of the Governance Pillar

Executive Summary

In the Governance Pillar of the total of 9 indicators four met the targets (2 on Decentralization, 2 on Justice), 1 not met (Justice), 2 not met but ongoing progress (1 on Justice, 1 on RSP) and 1 (indicator 18) the Government position is not met but ongoing progress and the Partners' position is not met by lack of data reliability⁴.

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In terms of progress in implementing the **Public Sector Reform**, the Government and Cooperating Partners agree that, in face of the non-completion of the evaluation of the cost of the Policy on Salaries in the years 2010-2012, there is still no estimate of the total cost of implementing the Policy on Salaries adopted by Government in 2008. However, they acknowledge that efforts have been made in terms of preparation and updating of the legal and regulatory framework. In this context, a new draft regulation on social welfare was prepared and a decree was approved establishing the localization subsidy⁵, whose programme budgeting for 2010 is 315.4 million meticaís and which will enter into force from July 1, 2010.

⁴ The Pillar recommends that the Justice Group find consensus before the April JSC.

⁵ The Government believes that the target on the localization subsidy is one that, in all three targets of this indicator has a bigger share in that it is one that will realize the policy of attraction and retention of middle and senior management staff in the districts.

In the area of **Decentralization**, in general, the trend is being seen as positive, being noteworthy for, among others, the increased transfer of funds at local levels and the establishment of the District Development Fund by Decree No. 90/2009 of 15 December. However, challenges constituted the deconcentration of sectoral funds, the operation of Local Councils and the strengthening of the municipalities' capacity (in increasing own revenues and on budget execution). This process aimed to make available to the communities the financial resources to improve production levels and create employment in rural areas.

In the **Justice** Sector, the area of legal assistance and legal aid made progress in extending to several districts the provision of services to citizens. Otherwise, the Prison area experienced an unsatisfactory performance regarding the mitigation of overcrowding in jails, whose consequences in the year under review had a negative impact on respect for human life and dignity.

The Joint Review found that the need to continue improving the management of information needed for monitoring and evaluation of the Justice Sector remains, a fact which may improve with the completion of the deployment of software for process management and prison management, scheduled for November 2010 and the inauguration of the regular joint monitoring system to be run quarterly, to happen by late May. On the other hand, the need to review the technical notes where appropriate, such as in the case of indicators 14, 16 and 18, was expressed.

Indicators

In the area of **Public Sector Reform**, the Government and Partners agreed that the PAF indicator 12 has not been met, but there is remarkable progress. Although there are differences of interpretation on the scope of the analysis attached to the indicator, it is assumed that out of the three activities that comprise the index, two were met and one is in progress. Even so, the partners understand that the intended objective of this indicator was to prepare a study on the tax implications of the implementation of salary policy, and this study was not prepared. On this aspect the Government argues that this information already existed in 2008, having provided a basis for approval of the Medium Term Salary Policy (PSMP).

In the area of **Decentralization**, the evaluation done on indicators has concluded that the targets relating to the indicator 10 (fiscal transfers to provinces, districts and municipalities) were met and even exceeded. As to the operability of the Local Councils (Indicator 11) there was remarkable progress but the target was not met. The Advisory Councils at district and at Administrative Post level do operate in all districts, but most fail to comply with all requirements of the Law of the Local Organs of the State (LOLE) and its Regulamentations. The indicator 13 (local governments own revenues) has been met but in spite of increasing own revenues, expenditure declined. The reduction in expenditure levels in 2009 compared to 2008 is due to the fact that some municipalities have benefited from external resources to finance some measures of investment in infrastructure, which did not happen in 2009.

The analysis of compliance with the five indicators in the **Area of Justice** in 2009, allows us to find that two were met, namely 15 on assistance and legal assistance to citizens and 16, given that the latter is for information, measurement according to the target not being possible. The indicators that were not met were the indicator 14, on the number of cases tried in courts in the strict sense, indicator 17 referring to cases investigated within the period of preparatory instruction – yet presenting progress, and indicator 18 on the police operability, the Government's position is not met but progress was made and the

position of the Partners is not met because of lack of data accuracy⁶. With regard to the indicator 16, provisional information was provided, pending on the Annual Information of the Attorney General's Office to the Parliament.

Performance

Under the **Public Sector Reform**, the Government and the Cooperating Partners agreed that, given the non-completion of the evaluation of the Salary Policy's cost for the years 2010-2012, there is yet no estimate of the total cost of implementing the Salary Policy adopted by the Government in 2008. However, they acknowledge that efforts have been made in terms of preparation and updating of legal and regulatory framework. In this context, a new draft regulation of social welfare was prepared and the decree creating the subsidy of localization⁷ was approved, whose programme budgeting for 2010 is 315.4 million meticaiss and will enter into force from July 1, 2010. (*Target met*).

Decree No. 55/2009 of 12 October was approved and came into force, which created the Performance Management System In Public Administration (SIGEDAP) and its regulation as instruments designed to ensure materialization of the objective of improving the quality of services provided to citizens through ongoing assessment of the performance of officials and state agents.

As regards the area of the Fight Against Corruption, progress should be noted in implementing the Anti-Corruption Strategy in that: (i) guidelines were prepared for the sectors and provinces to improve the evaluation indicators; (ii) the review of the National Plan to Fight Against Corruption was carried out in five key sectors: health, education, finance, interior and justice (PGR, Courts, Ministry of Justice); and (iii) 33 technicians were trained at national level to ensure the reformulation of provincial anti-corruption plans and the involvement of the Observatories of Development and of the Local Advisory Councils in monitoring the Anti-Corruption Strategy.

However, it was not possible to carry out the 2nd National Survey on Corruption and Governance whose completion was scheduled for the month of April 2010 and the inclusion of evaluation of the implementation of the Anti-Corruption Strategy (EAC) in the Balance of the Economic and Social Plan (BdPES) in 2009 since the ongoing work to adjust the orientations of the Ministry of Planning & Development (MPD) to include the activities of the Public Sector Reform (RSP) and the Anti-Corruption Strategy in the Economic and Social Plan (PES) were not included in PES 2010.

Challenges in the area of the Public Sector Reform (RSP) are the establishment of e-sip due to costs for its installation allied to the technological conditions of the districts; the impact of the Medium Term Salary Policy in terms of cost and the phases of its implementation; improving the planning and budgeting system for the implementation of the Performance Management System In Public Administration (SIGEDAP) and strengthening mechanisms for monitoring and evaluation of the Anti-Corruption Strategy.

However, it is important to stress that the difficulties found at the group level in reaching consensus on the progress made in implementing the Medium Term Salary Policy (PSMP) provide us with a lesson in the need to increase dialogue between the Government and the Cooperating Partners in order to be able to have the same understanding of the implications of the salary reform, both in terms of its fiscal impact, as in its financial sustainability and other implications at the macro economic level.

⁶ The Pillar recommends that the Justice Group find consensus before the April JSC.

⁷ The Government believes that the target on the localization subsidy is such that, in all three components of this indicator, the policy of attraction and retention of middle and senior management staff in the districts will be realized.

During the year under review there was a global budget execution of 75% of the PRSP motivated by the non-approval of two major tender competitions, due to the non-observance of the World Bank procedures when launching the tender process. Regarding the implementation of the Ministry of Civil Service, that is of the order of 82.8%. However, it should be noted that for budgetary allocation, the exception of the Administrative Tribunal and the Institute for Education in Public Administration and Local Government (IFAPA) Niassa who have had their initial budgets to be increased in the order of 8.7% and 13.7% respectively, all other sectors/Institutions (MFP, ISAP, Maputo and Beira IFAPAs) had initial budget cuts ranging from 7.4% to 38.4% which underscores the challenges facing the PRSP in terms of financial resources for its implementation.

Amongst progress in the area of **Decentralization** the adoption of Decree No. 90/2009 of December 15 is to be highlighted, creating the District Development Fund in order to make available to communities the financial resources to improve production levels and employment creation in the rural areas of our country. There remain situations where the process leading to project approval and management of the funds themselves continue to be made by the same entities, that is, the district Administrator and the Technical Team at District Level (ETD).

Apart from the advances mentioned above, the following progress may also be considered: (i) the devolution of sectoral funds in public works (water and feeder roads), finance, health and education, (ii) approval and publication of districts' own staff; (iii) the establishment of Law No. 26/2009 of September 29, reducing visa issuance from 90 to 45 days – in advance.

However, there are still challenges for the field of decentralization as follows: (i) creation of conditions for the retention of staff at district level, (ii) the approval of a legal framework for competence and representativeness of the District Advisory Councils, (iii) the integration of land planning/sectoral planning, (iv) improving the monitoring and evaluation of the functioning of the advisory councils by the Ministry of State Administration (MSA), (v) The health, education, public works and finance sectors remain, relatively, at a phase when funds to the districts are still limited.

One constraint is the implementation of Decree No. 54/2005 of December 13 and of other new laws due to lack of public adjudication planning and dissemination of legislation at all levels, especially at local level.

With regard to fiscal performance, the area of Decentralization has, in general, registered remarkable growth in the transfer levels of central funds to the provinces, districts and municipalities as shown by the indicator 10. It is noteworthy that the presented figures reflect the implementation, and for the specific investment in the district this corresponds to 94.4% compared to plans, and do not include the decentralised sectoral resources.

Based on quarterly trial balances for the implementation of municipal budgets for 2009, globally, groupings of Municipalities of small Cities, Cities and Capital Cities met the target according to the indicator, except in the municipalities of Milange, Marromeu, Quelimane and Gúruè that individually did not reach it. As to the ten new municipalities, the implementation of 2009 will serve as the basis for review in 2010.

Although the **Justice Sector** recorded a satisfactory level of budget execution with 95.7% (security and public order and judicial system), taking into account that the execution was void at the Office of the Justice Ombudsman, as it is not yet operational, a proportion of funds being redirected towards the equipping of the Palaces of Justice in Morrumbene, Moma and Cheringoma.

In terms of overall assessment, the share of the area Judicial System in relation to the total expenditure in 2009 increased over 2008 from 2.8% to 3.9%. In the same period, the share of the Security and Public Order area, in terms of the total expenditure, dropped from 4% to 3.6%.

Under the predicted Law Reform, although important pieces of legislation have been approved, delays in the drafting process remain in planned lawmaking.

As for the performance audit it should be reported that relevant steps were taken to follow up the recommendations in a own systematic matrix. There are under development several actions relating to each institution and/or service audited, and although results are still not significant, some signals can be viewed in the matrices of the proceedings in attachment, lacking however a monitoring which is expected to happen within the joint monitoring of PEI II. Additionally there is a need to strengthen the monitoring process and monitoring of these actions, which should be interlinked to the process of regular monitoring of the sector, periodic balance reports (PES, PEI, Annual Review).

Concerning special issues

In the area of the **RSP**, the impact of the Medium Term Salary Policy in terms of cost and the phases of its implementation; improving the planning and budgeting system for the implementation of SIGEDAP and strengthening mechanisms for monitoring and evaluating the Anti-Corruption Strategy.

In the area of **Decentralization**, the proposed Policy and National Strategy for Decentralization (PEND), which is under discussion at various government levels, society in general and partners, will seek to draw guidelines that will help the various actors in the implementation of decentralization in an integrated and coordinated manner, it being expected that it will be submitted for approval by the Council of Ministers by September 2010.

In the **Justice** area, the performance audit reports that although no progress is recorded in the regular monitoring of follow-up, in a general way the institutions are following up the recommendations made, as reported in the detailed analysis.

In the implementation of the **Anti-Corruption Strategy**, the Government recommended the strengthening of monitoring through the improvement in the identification of indicators and the intervention of Development Observatories in monitoring the process. Also, there are ongoing initiatives to harmonize national anti-corruption legislation with international conventions ratified by Mozambique.

Lessons and commitments

Regarding the discussions between the PAPs' heads of missions and the Government held in March 2009, most of the issues discussed at that meeting are in progress and are reported in the pillar report.

In this sense, the heads of the pillar agreed to prepare a business plan and conduct quarterly meetings during the years 2010 and 2011 to improve the management of needed information for the monitoring and evaluation in the area of Governance. The following actions will be taken by the end of 2010:

- **In the RSP sector:** Implementation of the pilot phase of the introduction of the Culture of Excellence in the Mozambican Public Administration; draft a system for planning, monitoring and innovation of large Public Sector Reform processes; and the establishment of a schedule of actions to ensure the timely collection and processing of needed information.
- **In implementing the Anti-Corruption Strategy:** In addition to the schedule of actions as in the case of the Public Sector Reform, the Pillar shall adopt the recommendations that will result from the ongoing evaluation regarding the enhancement of monitoring indicators of the Strategy Anti- Corruption, in order to ensure objective and reliable data, as well as the intervention strengthening of the Observatories of Development.
- **In the area of Decentralization:** Meetings of the group (Government and Partners) held more regularly in order to meet the territorial/sectoral deficit of 0; (IV) improving the monitoring and evaluation of the functioning of advisory councils by the Ministry of State Administration.
- In the sectors of health, education, public works and finance, funds transferred to districts are still limited.
- Lack of procurement planning (public contracts) and dissemination of legislation at all levels; the implementation of Decree No. 54/2005, December 13, and other new laws remain a constraint at the local level.
- **In the Justice Sector,** the need to continue improving the management of needed information for monitoring and evaluation of the sector in due time remains, a fact which may improve with the completion of the deployment of software for process and prison management, scheduled for and with the inauguration of the system for regular joint monitoring on a quarterly basis. On the other hand, the need to review the technical notes where appropriate, such as indicators 14, 16 and 18, has been expressed.

Human Capital Pillar

1 Executive Summary

Compared with the previous year (2008), the pillar of human capital has registered better progress: the targets related to 5 indicators (50%) were met, 3 were not reached (30%) but with progress and two (20%) were not met.

In terms of expansion of services in the Water and Sanitation sector, there has been progress in terms of percentage of population with access to infrastructure for water supply in rural and urban areas. Additionally, there was progress in the sanitation component despite the targets for urban sanitation not being met. However marked differences persist between the data derived from household surveys and sector data. For the first time the target referring to the number of children on Anti-Retroviral Treatment (ARVT) was met in the area of Health. In education, the number of children who entered school at the right age and who completed seven years of basic education, increased in 2009. In Welfare, access to

social protection programmes increased in spite of the real value of food subsidies having declined due to inflation.

In terms of improved services, there has been progress in human resource management. In the sector of Education the target concerning student-teacher ratio has been met for the first time. This fact follows from reaching the targets of the annual recruitment of new teachers and improved procedures for replacement of teachers who leave the sector for various reasons. The target ratio of inhabitants per health service personnel has also been met and exceeded. Projects of housing type to promote construction using materials resources available locally were developed and disseminated.

There were improvements in the pillar in the financial execution of internal funds as well as external funds, which show an increased capacity of the pillar to implement its plans.

Progress on key indicators of the Human Capital Pillar in 2009

Indicator	Target (2009)	Real (2009)	Comments
Education			
Net enrolment rate of 6-year old girls	76%	75.3%	Target not met, but with progress
Conclusion rate for girls in primary education	44%	42.3%	Target not met, but with progress
Ratio pupil/teacher	68/1	67.7/1	Target met
Health			
DPT/HB-3rd dose coverage	95%	94%	Target not met, but with progress
Institutional childbirths coverage	60%	55%	Target not met
Inhabitants per Health Personnel	1,306	1,261	Target met and exceeded
Number of adults with HIV infection who receive ARTV according to national protocols	148,000 ⁸	156,688	Target met and exceeded
Number of children receiving pediatric ARTV	11,500	13,510	Target met and exceeded
Water and Sanitation			
Number of new dispersed water sources constructed	1,496	1,223	Target not met
Women and Social Action			
Number of children, the elderly, the disabled, women heads of households benefiting from social protection programmes	204,827	205,742	Target met

The major challenges in terms of the Human Capital Pillar to improve rendering services at the base are linked to the decentralization processes. It will be necessary to continue i) strengthening the limited capacity at the base, ii) to develop and better communicate the criteria for allocation of funds at these levels, and iii) improve the capacity of the procurement system at the sector level as well as the Administrative Tribunal to respond more quickly to the processes and iv) improve the system for impact monitoring and assessment.

At the same time, not achieving the target of vaccination of children, concerns about student learning especially in early grades, the diminished purchasing power of the most vulnerable, all do reflect the need for better focus and coordination among sectors in the early childhood area to ensure healthy children, protected and prepared to develop to their optimum potential.

⁸ It should be noted that the pillar separates the targets by target group (adults and children). The number of 160,000, which is reflected in the PAF, includes adults and children. Therefore the target of 160,000 set in the PAF has been met.

Partnership and dialogue between ministries and their partners continue to improve despite the prevailing problems in the area of alignment, particularly with regard to registration in the budget of bilateral projects commitments and reliability of information on medium-term commitments.

2 Specific Questions

Presented below are the main issues raised by various groups of the Human Capital Pillar and that deserve special attention:

2.1 Study PETS (Education)

In 2009 the study PETS⁹ took place. The final report of the study was not accepted by the Government and its partners for not having responded to the previously established ToRs. The company's justifications were not considered sufficient, since the arguments of the consultants were not touched upon in the pilot phase.

2.2 Management of Public Finances (Health)

The Consolidated Plan of Action for Public Financial Management (PEFA) at the health sector level was approved in July 2009 and immediately began its implementation. Areas where there has been remarkable progress in 2009 include: Action 5 (DAF¹⁰, the Financial Report was comprehensive, credible and timely completed); Action 7 (SP¹¹; External Audit Follow-up); Action 9 (DAF; closure of the Common Fund's bank accounts), and Action 12 (SP, DHR¹²; Integration of payroll). Most actions will be completed in 2010 and 2011. At the recent meeting of the Sector Coordination Committee (CCS) on March 25, 2010 it was agreed that this plan would be monitored both by the Joint Coordination Committee (CCC) and by the Permanent Secretary to confer greater speed in the implementation of envisaged measures. The Audit and Finance working group will facilitate its implementation.

2.3 Decentralized management

The key to a better performance in rendering services to communities is an increasingly decentralized implementation at the appropriate level: this implies a change in the role of central ministries, to stop being implementers and to focus on policy, the development of standards and monitoring performance.

At the same time, a decentralized implementation at the appropriate level requires the continuation of human resources decentralization as well as increasing their capacity to manage the various programmes.

Civil society and community organizations play an increasingly important role in the expansion and in ensuring the sustainability of services (eg repair of the supply sources, community health workers) against the Government's limited capacity in terms of financial and human resources to fulfil all needs.

Better communication and coordination in planning, budgeting, implementation and monitoring across different levels and different sectors will be required to liaise between the major government policies

⁹ PETS – Public Expenditure Tracking Survey, in the Education sector.

¹⁰ Directorate of Administration and Finance.

¹¹ Permanent Secretary.

¹² Direccção de Recursos Humanos – Human Resources Department.

and their implementation at the base. This will include clarity on the criteria for allocation within and between provinces, both from internal funds and external funds (including contributions by NGOs and from the private sector) to ensure equity and efficiency in the distribution of funds.

2.4 Updated population projections

The not yet available population projections based on data from the population census of 2007 prevents an accurate assessment of the PAF indicators, particularly indicators on coverage. While progress in data collection has been observed, there remains the need to ensure a more comprehensive and integrated monitoring and evaluation approach, particularly at district level.

2.5 HIV & AIDS

Mozambique has made significant progress towards achieving the Millennium Development Goals (MDGs). However, the timely reach of these targets may be threatened by the development of the AIDS pandemic at the national level. The latest epidemiological data (2009) suggest that the prevalence rates of HIV/AIDS are still very high, particularly among women, affecting 15% of pregnant women in prenatal care – even if considering that this new rate represents improvement over the 16% estimated in 2007.

Although important progress has been made in 2009 in terms of treatment and preventing mother-to-child transmission (PMTCT) among others, further efforts are needed to accelerate and optimize the response against HIV/AIDS across all sectors with particular focus on prevention and operationalization of the National Strategy for Prevention recently approved. Besides prevention, priority should also be given to the implementation of HIV/AIDS programmes at the workplace to mitigate the negative impacts on State officials. It also remains necessary to better integrate the approach to social protection in the sectors, particularly in relation to orphans and vulnerable children and elderly people who care for them.

2.6 Budget execution

The year 2009 showed a better budget execution (in volume of expenditure, but also as a percentage of execution) in the various sectors of the Human Capital Pillar, particularly the funds controlled by the Single Treasury Account (CUT). Despite progress there are still problems in the registration of bilateral projects outside the CUT, particularly in the areas of Health and Water and Sanitation, either in the planning stage, or during the presentation of the accounts, contributing negatively to the investment budget's execution levels. In the Water and Sanitation sector problems remain with the debts resulting from non-payment of VAT and copartnerships, which increased from 484 million MT in 2008 to 595 million MT in 2009 (growth of 24%).

At the same time concerns remain about the allocation of funds¹³ for different sectors¹⁴ in line with the PARPA targets and the apparent lack of clear criteria on their distribution by province and within provinces.

¹³ It will be important, in the context of this discussion, to take into account all the available funds, internal and external, off and on-CUT.

¹⁴ The Water and Sanitation group finds a strong dependence on external funding that requires more attention from the Government; on average only 3.9% of the state budget is allocated to the Water and Sanitation sector, as opposed to the 5% estimated in the PARPA. In the Social Action sector, although the targets were met, they remain below the population's

2.7 Fight against corruption

Different sectors have continued with the implementation of anti-corruption plans, particularly in terms of improving transparency in financial management and in the area of procurement, and through a better communication of the rights of “clients” of the various services. Although improvements have been observed in the illegitimate sale of services (eg free distribution of books and medicines), the sectors should continue to work together with other State institutions (eg justice) to stop this evil.

3 Cooperating Partners’ Performance

The partnership between the Government and its partners at the Pillar level continues to be strengthened, although progress in the area of alignment has been less positive:

- There are still problems about the proper time for the registration of bilateral projects (particularly in the sectors of Health and Water and Sanitation) and with regard to the channeling of funds through the CUT, for projects in progress.
- Predictability is still poor for external funds for the medium term.
- Introduction of additional measures, particularly in implementing the national procurement system, that have contributed to delays in the procurement process.

4 Progress per Sector

4.1 Education

In 2009¹⁵, the Education and Culture sector continued its efforts to implement its Strategic Plan. However, two of the PAF indicators have not been met by small margins, while the third was met.

- The target for girl’s completion of the higher primary education level (EP2 – Grade 6-7) has not been met, staying at 42.3% (48%¹⁶ including EP2 night school) against the planned 44% and the 34% achieved the previous year, which shows a positive development trend.
- The target of education for 6-year old (girls) stood at 75.3% in 2009 against 76% planned. In 2008 this was 73% of 74% planned. As a result of progress in this indicator, the sector has already established equity in enrolment for boys and girls at age 6 in first class.
- For the first time the target concerning student/teacher ratio was achieved (67.7 against 68 planned). This follows from reaching the targets of the annual recruitment of new teachers and improved procedures for replacement of teachers who abandon the sector for various reasons.

needs and annual proposals (financial) of INAS. The Education sector is concerned with the decrease in the external source for 2010 and beyond, which cannot be compensated by the internal source.

¹⁵ Source of information: data produced by the MEC/INE. Coverage rates are calculated using as reference the population projections compiled based on 1997 census and other surveys (the final data from the 2007 census is not yet available). Population projections based on 2007 census should be available from mid 2010.

¹⁶ Value indicated in the Balance of PES, which includes students in night school. The technical note of the PAF indicator does not include night students.

The budget (internal and external) for 2009 grew and the financial execution improved: the execution rate was 90.4% (of the final allocation) against 88% in 2008. In terms of expenditure, there was an increase of 13.2%¹⁷.

The biggest challenges in the sector include the following areas of action:

1. Continue planned activities to improve the quality of education in the areas of bilingual education, early childhood, teacher training (initial and in service), school management, among others;
2. Develop a standards-based system for assessing student performance;
3. Ensure the expansion of post primary education¹⁸ in a sustainable manner and without affecting the progress already achieved in primary education;
4. Improve capacity for planning, financial management (including procurement) and human resources from the base, in the context of the decentralization process.

Major actions planned for the coming years, as reflected in PGQ 2010 – 2014, prioritize the aforementioned challenges. However, the budget reduction of investment planned for 2010 and subsequent years, due to weaker external component, could jeopardize its implementation. In this context, the sector should embark on reforms to make the system increasingly sustainable.

4.2 Health

The performance of the health sector in 2009 was marked by the beginning of the process of implementing the Development Plan of Human Resources for Health, in particular by creating institutional conditions conducive to its operationalization. The process of operationalization of the Strategic Plan for the Information System for Health (SIS) 2009–2014 was also approved and initiated this year, which aims at strengthening the SIS so that information be increasingly used for decision making, restoring data quality and accuracy. At programmatic level the highlight was a continuous improvement effort in preventive activities in the context of HIV. Special focus is on increasing the number of children on ARVT that reached the target for the first time; this indicator was one of the greatest challenges in previous years. In addition to preventive activities efforts have continued to restructure and improve the management of specific programmes including the Expanded Programme on Immunization, health of women and children. Guidance documents were also approved in the area of women's health (Waiting Homes Strategy for pregnant women and Strategy of traditional midwives, and others) and the Strategic Plan of the National Programme to Fight Malaria. The year under review was marked by improved allocation of human resources, with the allocation of a minimum of one GP doctor in each of the country's districts.

Overall, the sector's performance was satisfactory. It has improved compared with the results achieved in 2008.

A more detailed analysis of the five indicators that evaluate the performance of the health sector in the Pillar of Human Capital in the context of the **Joint Review of the Government and the Programme Aid Partners (PAPs)** shows that the targets set for 2009 were met in 3 of the 5 indicators (60%).

¹⁷ REO IV 2009.

¹⁸ Secondary Education, Technical Education and Higher Education.

4.3 Water and Sanitation

Progress¹⁹: The water and sanitation sector achieved in part the coverage envisaged under the Performance Assessment Framework 2009. The coverage level of urban water increased from 50% in 2008 to 60% in 2009 reaching the target set. Concerning rural water, the number of scattered sources of water (bores and wells), constructed and rehabilitated was 2103 against the planned 2439. This was due mainly to the late start of some planned activities. Although not reaching the target of 55% of the planned, the coverage rate increased from 52% in 2008 to 54% in 2009. In the field of sanitation, the planned target of 40% was met in rural sanitation. In urban sanitation, activities achieved 50.2% of coverage compared to the 55% expected in PARPA II. The sector has also developed the National Water and Sanitation Programme (PRONASAR)²⁰ which will allow systematic and harmonized investment for water supply and rural sanitation.

Although the PAF matrix does not produce indicators for water resources, hydraulic works and International Rivers these sub-sectors showed a strong performance and the process of drafting the National Programme for Development of Water Resources has started.

Constraints: In a similar vein to the previous year, constraints related to VAT debts and Government reimbursement remain: the present value of debt is 595 million Meticaís, an increase in debt of about 24% in 2009. During the year under review, the sector triggered unsuccessfully efforts to reduce the debt relating to VAT and to copartnerships. The increase in debt constrains strongly the implementation of future plans and is a strong concern for the sector institutions, especially in a context where many activities with external funding are underway, where memoranda of understanding compel the copartnerships of the government of Mozambique.

Lessons Learned: The performance of the sector allowed the assessment of lessons learned and that had influence on the results achieved: (i) Funds that passed through the CUT had, in general, a high level of execution monitoring, and the sector should continue to encourage its partners to provide the funds allocated to projects through the CUT; (ii) The need to improve sharing of information on off-CUT funds planned at the project level and their execution to enable the sector to have more realistic information on the plans and on the physical and financial implementation and ensure inclusion in PES of partners' activities; (iii) The sector's high dependence on external funds and the debt caused by the lack of payment of VAT and copartnerships, suggest that the sector deserves more attention from the Government. On average, only 3.9% of the national budget is allocated to the water and sanitation sector in contrast to 5% estimated in the PARPA; (iv) The process of decentralization has contributed significantly to improved financial performance and to reduce operating costs and infrastructure costs; (v) Delays in the implementation of decentralized funds due to lack of knowledge of national regulations on the distribution of funds, due to delays in approvals by the Administrative Tribunal and the lack of mechanisms and adequate resources to support local organs indicate that the decentralization process is still slow; (vi) The need to strengthen the capacity development process with emphasis at the district level. (vii) Lack of reliable data has influenced the sector performance.

Sector reforms: Rural Sanitation: A new approach to Total Sanitation Led by Communities (CLTS) is producing good results in rural sanitation. To ensure consistency of approach, the DNA and its partners will develop in 2010 a strategy for implementation of CLTS and the promotion and monitoring of technologies for improved sanitation.

¹⁹ Although there remain marked discrepancies between the data of the sector and INE data.

²⁰ Officially launched on March 24, 2010.

Monitoring and Evaluation: the analysis that the sector has done on sector data, concluded that the results of household surveys conducted by INE in the country have shown that, despite the existence of infrastructure for safe water supply and sanitation, the number of people who actually use this improved infrastructure does not correspond with the amount of existing infrastructure, especially in rural areas. Thus, during the Annual Review meeting it was agreed that, until October 2010, the sector would review and agree on the parameters for the calculation of water and sanitation coverage so that the data does reflect the actual situation.

4.4 Women and Social Action

Sector performance: PAF Indicator # 27: “Number of children, elderly, disabled, women heads of households benefiting of Social Protection programmes” – Target met.

The Ministry of Women and Social Action (MMAS) assisted 205,742 people representing an overperformance of 0.45% compared to the PAF target for 2009 set at 204,827 beneficiaries. In addition to basic social protection programmes implemented by the direct route by the National Institute of Social Action (INAS) the care for 328,348 children in difficult situations stood out, 65,407 children in pre-school ages, 3,702 elderly and 3,756 people with disabilities in communities and institutions.

For Food Subsidy Programme (PSA) levels the values of cash transfers were maintained, reflecting a decrease of 13.6% of the purchasing power of recipients over the years of the last update of the value (2008), considering the inflation.

In November 2009, the Council of Ministers approved the Regulation of Social Security Subsystem Basic. Throughout the year was drawn up the National Security Strategy Social Care.

Budget execution: In the year 2009, the sector received a budget of 367,925.97 MT, MT being 306,824.60 for the organs of the sector with the enforcement of 61101.37 MT and 99.54% for the investment a performance of 95.62%.

Challenges

1. Increasing the value of OE allocated to basic social protection programmes to cover a larger number of beneficiaries, taking into account the levels of vulnerability in the country;
2. Implement the mechanism for increasing the value of the food allowance stated in Decree No. 19/93 of August 25, to ensure maintenance of the purchasing power of beneficiaries against inflation;
3. Change the current classification in EO relating to social protection programmes (currently included in the rubric “General State Obligations”) to facilitate planning and monitoring;
4. Strengthening inter-sectoral coordination in the field of social action;
5. Develop a comprehensive and integrated Monitoring and Evaluation system, able to provide data on the results and impact of the Sector’s interventions;
6. Approve and implement the EN SSB (including the definition of the Operational Plan).

Lesson Learned

The use of the Social Action Group to review and make recommendations on issues of interest to the sector continued to excel as a practice that contributes to the gradual improvement of coordination between the stakeholders and the impact of the intervention.

4.5 Housing

For the housing component, the favored measures taken were the promotion of housing by building homes, lending to housing, as well as activities that contribute to accessing land with infrastructure support by population.

In this area, the following activities were carried out in 2009:

4.6 Housing

Housing type-projects were prepared and sent to the provinces for dissemination, where construction technology allows the use of material resources available locally. From this perspective, type-projects were developed for houses using materials such as native palm, soil, cement and local brick for dissemination in the resettlement districts under the programme for construction of dwellings.

The monitoring and technical assistance to the Provincial Directorates of Public Works and Housing on the development and implementation of housing projects with resources available locally was carried out.

In order to support local authorities, comments to the type-projects for construction of houses for technicians engaged in the districts within the province of Gaza were prepared and sent.

The collection of relevant documentation for the preparation of the Housing Strategy for the Civil Service (EHFP) was carried out and the terms of reference for the hiring of consultants were elaborated;

4.7 Urbanization

Elaboration and implementation of partial plans of urbanization for the demarcation of 15,600 plots (80.5%) of the 19,400 planned for housing construction.

Technical assistance to 10 Provincial organs and to 38 District organs, regarding implementation of land development plans.

Law on management of urban land published in 38 local organs.

A handbook was prepared on “Expansion of Mozambican Cities and Villages”, which is a tool that contributes to practical solutions for implementing partial plans of urbanization to be publicized amongst local authorities.

4.8 Building Materials

Guidelines for the artisanal production of solid bricks and building bricks with solid bricks were prepared and edited;

A guideline was prepared for technical building solutions using solid bricks and soil-cement bricks;

Three (3) thousand copies of guidelines were distributed and disseminated to the provinces and districts;

Two (2) model homes were constructed with the use of solid brick and stabilized soil.

The terms of reference for the building project of the Resource Centre in Manica Province were prepared.

4.9 Fund for the Promotion of Housing

4.10. Replanned Projects

All the values to finance all the projects included in the IV Programme Contract for replanned projects being implemented in 18 municipalities and 28 Districts were made available to promoters, whose actual implementation is at approximately 80% (equivalent to 4,893 products). Of all replanned projects about 60% (3,529 products) are completed and are at different levels of accessibility in the form of Credit to the target population and public institutions. 16% (1,015) of the replanned projects' products are at various stages of procurement for effective implementation (contract), especially the Basic Urbanization of 850 plots in the Municipality of Maputo, now transferred from Zimpeto to Catembe.

The construction of 18 more houses with mixed material in relation to what is provided for in the IV Programme Contract for replanned projects was funded, totaling 20 homes in the District of Nicoadala, Zambezia Province.

Also now available to the government of the Province of Tete a financing in the amount of 5,000,000.00 MT (five million) in Meticaís, in connection with the reinvestment of revenues obtained from local projects.

The table below shows the stage of the Replanned Projects of the IV Programme Contract and Extra Plan in 2009.

Replanned Projects							
Type		Anticipated Products	Completed	Under construction	Not yet started	Cancelled	
Urbanizations (Plots)		IV CP	6,090	3,483	1,200	1.015	400
Housing	Cement-Soil	IV CP	170	14	156	---	---
		Extra Plan	1	1	---	---	---
	Building Brick	IV CP	20	12	8	---	---
		Extra Plan	8	7	1	---	---
	Mixed	IV CP	2	20	---	---	---
Rebuilt (Delegation)	Extra Plan	1	1	---	---	0	
TOTAL:			6,292	3,538	1,365	1,015	400

4.2. Carried Over Projects

Funding for rehabilitation and completion of five (5) projects carried over from previous Contracts Programmes was one of the main activities undertaken in 2009 which saw remarkable developments if one takes into account the difficulties of the then major project stakeholders.

Two projects were rehabilitated (40 dependencies in Cumbeza Ward, Marracuene District, Maputo Province and 36 houses Tambara II, Manica Province), and the Small Water Supply System (PSAA) of Cumbeza was completed, in the scope of integrated implementation with the National Water Directorate (DNA). The process for termination of contracts with KFM and ECOSSIS was completed, and for the completion of 10 unfinished homes in Xai-Xai there is an ongoing procurement procedure.

4.3. Extra Plan Projects

Of the four (4) predicted projects 3 (three) were completed: seven (7) houses in the district of Boane Picoco II; a T4 house in the district of Moamba, Maputo Province; remodeling of the Delegation of the Fund for the Promotion of Housing in Inhambane; and a house in the neighborhood of Magoanine, Municipality of Maputo is in the process of contract after contract termination with the first contractor.

Following table shows the summary of carried over projects.

Carried over projects						
Type		Anticipated Products	Completed	Under construction	Not yet started	Cancelled
Rehabilitation (Houses)	Cumbeza	40	40	---	---	---
	Tambara II	36	36	---	---	---
Integrated Execution	PSAA - Cumbeza	1	---	---	---	---
Completion (Houses)	Xai-Xai	10	---	---	10	---
TOTAL:		87	77	---	10	---

4.4. Granting of credit

The process is now complete of the verification of documents, proof of address and assessment of borrowing capacity of the candidates on the list provided by APIE for Rehousing of Tenants of the Not Independent Building Units in the Dependencies of the Cumbeza Ward, Marracuene District, Maputo Province.

Under the IV Programme Contract 3,439 Credits of Land with Infrastructure were made available, of which 1,400 in the year under review alone, in five sites (Nicoadala, Catandica, Manica, Macia and Manhiça); 512 Credits for housing, and support to 6 Youth Associations in the promotion of housing and for generation of own income.

The process of verification and assessment of borrowing capacity of Tenants of the Not Independent Building Units in the State Park Estate in Quelimane, Zambezia Province, has begun, being candidates for the grant of credit in Building Materials, for resolution of the conflict.

Thus, the value of revenue collection from the credit was 14,506,282.93 Meticais, equivalent to a performance of 57%.

Report of the Economic Development Pillar

Introduction

The sectors that constitute the Economic Development Pillar had, generally, an acceptable performance in 2009. Out of the the 9 indicators of the Pillar, two were met, namely indicator 28 for the financial sector, relating to IFRS implementation and the Law of the legal regime of the insurance contract, and indicator 35 relating to new connections to the electrical power network. For the remaining seven indicators of the pillar, the targets were not met although all registered remarkable progress.

The positive developments in the pillar that are noteworthy are related to the extension of the coverage of the banking network and micro-finance, electricity network and business environment reforms that improved the ranking of *doing business* in Mozambique from position 141 to position 135. Also noteworthy as positive is the decentralization to the districts and municipalities of the planning and execution of the maintenance of roads.

Nevertheless, there remain challenges concerning the need to accelerate the pace of reforms to the business environment, and budget shortcomings that constrain among others the demarcation of communal lands and the implementation of infrastructure projects. The latter is also negatively affected by the length of time which characterizes the procurement process.

FINANCIAL SECTOR

In the financial sector banking was characterized by: (i) change in credit to the economy of around 58.6%; (ii) the solvency ratio reached 15.1%; (iii) maintenance of the downward trend in the spread of interest rates, standing at 9.05%, (iv) the entry into operation of 55 new bank branches; (v) expansion of banking network to 17 more districts, totalling 51 districts with banking presence. Nevertheless, Maputo has 167 bank branches, equivalent to 47.44% of the total.

At the regulatory level, emphasis is on reducing the rate of Compulsory Reserves to 8.00%, and reduced rates of intervention, the Standing Deposit Facility and the Standing Lending Facility from 7% to 3% and from 13.00% to 11.50% respectively, and the approval of Notice No. 5/GBM/2009 on the Regime of Commissions and other charges. The insurance sector has had a increasingly positive performance from year to year, translated by the average annual growth of 20.4% of gross premiums issued in the last four years and licensing of new mediators, in numbers: (i) seven insurance Brokers, (ii) 4 insurance Agents, and (iii) 163 insurance Promoters.

The INSS administered Compulsory Social Security System was established in 1990, and is gradually reaching its maturity, therefore a need for a strict control of its development and transparency in its management. This action has been developed through the definition of an appropriate investment policy, actuarial valuation and publication of its accounts.

With regard to PAF indicators, namely the indicator 28, (i) Law of legislative authorization of the legal Insurance contract, assessed by the Council of Ministers and subjected to Parliament and (ii) the appropriateness of software for implementing the new Accounting Plan. Where it concerns software applications and transition to the International Financial Reporting Standards (IFRS), the targets were

met. Concerning indicator 29 (Creation of technical conditions and legislative packages to implement recommendations of the actuarial study and the investment strategy), the target was not met but progress was registered.

PRIVATE SECTOR AND BUSINESS ENVIRONMENT

The business climate improved in the reporting period as a result of the implementation of administrative reforms and in the framework. The simplification of company registration procedures and administrative improvements in customs aimed at easing international trade contributed to Mozambique improving five positions in the overall ranking of *Doing Business*, having passed from position 141 to 135, out of 183 countries. Nevertheless, these reforms were not sufficient to prevent the fall of the country by one place in the SADC regional ranking and Mozambique is currently in 12th place, only ahead of Zimbabwe, Angola and DRC.

The analysis of the investment climate held in 2009 by the World Bank indicates that while several reforms that impact on the business environment have been implemented in 2009, there was a worsening of limitations to access credit, and an increase in crime and informality levels. In this sense it becomes imperative to accelerate the process of implementing the Strategy and Action Plan for the Improvement of Business Environment, and the establishment of its monitoring system and the Strategy for Small and Medium Enterprises. Above all, it is important to ensure a strong political involvement and high governmental coordination in implementing the reforms of the business environment.

With regard to PAF indicators, in particular, indicator 31 (“time needed to perform an import and export operation”) and indicator 32 (“cost of hiring and firing workers”), while noting progress, their targets were not met.

AGRICULTURE

Concerning the agricultural sector, the government’s priority in 2009 was the implementation of the Action Plan for Food Production (PAPA) with the aim of increasing production and productivity. To this end, funds have been allocated to MINAG amounting to 378.7 million Meticaís. The evaluation of PAPA’s middle term results is planned for 2010.

In the context of completing the Strategic Plan for the Development of the Agrarian Sector (PEDSA), consultations were held with several key stakeholders. The approval is expected in 2010. Overall, in 2009 the agricultural and livestock production grew by 8.6% compared to 2008. The growth of the sector was affected by the global financial crisis and natural disasters.

The budget of MINAG grew in 2009 by 7 percentage points compared to 2008. The execution, excluding projects whose implementation does not go through the Single Treasury Account (CUT), stood at 87%. The government’s priority in 2009 was the implementation of the Action Plan for Food Production (PAPA) with the aim of increasing production and productivity. To this end, funds have been allocated to MINAG (378.7 million Meticaís). The evaluation of PAPA’s middle term results is planned for 2010. In the context of completing the Strategic Plan for the Development of the Agrarian Sector (PEDSA), consultations were held with several key stakeholders. The approval is expected in 2010.

For the three indicators of the PAF, despite not having met the target, there was progress compared to 2008. Of the total number of farmers assisted, the degree of achievement was 75.5%, while the number of local communities defined, registered in the cadastral atlas and certified was 52% and the number of hectares of new irrigation schemes built and/or rehabilitated with public funds achieved a performance of 69%. Internal factors such as the procurement processes as well as the scarcity of resources contributed to not achieving the targets.

ROADS

In the area of roads, among the various activities, the implementation of programs for maintenance of urban roads and the ones carried out by district governments, deserve special recognition. In these programs, municipalities and districts are responsible for planning and carrying out the work, and the sector is responsible for the allocation of financial resources, and technical assistance, and also monitors the programme. For large projects, the start of works in important sections of the primary road network, after solving the financial constraints, are also worthy of mention and as much as the various bridges that were initiated and/or completed.

Several areas still pose challenges for the sector, namely: (i) the need to establish a development plan for a sustainable road network; (ii) the need to balance investment in road network, allocating more resources to roads in rural areas; (iii) the need to implement a system of information management, (iv) the need to improve implementation of the programme of periodic maintenance of paved roads.

Among lessons learned should be highlighted the impact of soaring prices, particularly in projects involving international companies. In this context, it is required that there be, in the sector, a strategic reflection in relation to project standards and technical solutions to adopt. Moreover, the long cycle of approvals remains an obstacle for the sector, often being responsible for delays in the implementation of programmes, with financial implications also. Furthermore, the long, slow cycle approvals of the evaluation reports as well as their respective contracts, remains a constraint. It was hoped that after the approval of the plan, all activities in them would be handled in an easier and more functional manner.

The discrepancy between the preparation of PES proposals and the Budget, has to be examined, insofar as the availability of funds does not always accompany the development needs of the sector: for the same physical targets, there are always fewer financial resources.

The execution of maintenance activities through allocating resources to districts and municipalities, giving them the responsibility for planning and implementation, should be highlighted. This is a key step in deepening the decentralization process and also helps to boost the development of local contractors and institutional capacity building in areas of programmes' planning, procurement and monitoring.

For the year 2009, the target of ensuring that 73% of the classified road network would be maintained in conditions ranging from good to fair was established for the indicator 36, and 71% was reached. Although the target was not met, this activity registers progress.

ENERGY

The Energy Sector has produced positive results in meeting targets defined in the Government's Five Year Programme 2005-2009, the Economic and Social Plan and 2009 State Budget as well as by the PARPA II, with particular emphasis on indicators and targets comprised in the Performance Assessment Framework (PAF). The expansion of energy services for health and education amounted to about 102%, with the electrification of 511 schools and rural health centers against the electrification of 500 schools and health centers planned for the year 2009, as part of activities to be performed by FUNAE.

In the context of improving productivity in the energy sector, the process of evaluation of performance and efficiency of EDM is ongoing, in relation to the Contract Programme for the years 2006, 2007 and 2008.

Regarding the energy sector, the number of new connections made exceeded the planned target by about 75%, allowing the connection of 122,549 customers to the power network, which represents a total of around 760,000 customers connected to the network by the end of 2009. The percentage of people with access to sustainable modern energy services reached 14.4% of people with access to electricity compared to 10% planned for 2009.

As regards the (Extractive Industries Transparency Initiative) EITI initiative, the Ministry of Mineral Resources (MIREM) presented information on this matter, criteria and process steps to join the initiative at the 5th Session of the Council of Ministers, March 11, 2008.

An international workshop was held to launch EITI on 23 October 2008 in Maputo, where, in addition to open discussion and exchange of experiences with other participating countries, the following documents were presented:

- Proposition for programme activities;
- Proposition for the composition of the Coordination Committee (comprising members from government, civil society and private sector);
- Terms of Reference;
- Appointment by SEXA to MIREM of an adhoc working group (comprising representatives of MIREM, MPD, MF, civil society and private sector)

His Excellency the President made a public statement and an unequivocal commitment of the Government of Mozambique to the EITI, during the 11th Annual Conference of the Private Sector in 2008.

The declaration of the Head of State was followed by a circulation last December of a formal Document by Her Excellency the Minister of Mineral Resources to the "*Chairman of the Board of EITF*" in Oslo in Norway, presenting the decision of the Mozambican Government to apply as member of the EITI.

The *ad hoc* Working Group has met on 5 February this year to redefine the EITI's business plan by 2010 in accordance with priorities, harmonization of suggestions and recommendations from the October seminar.

The Coordination Committee has been formed and consists of 13 persons: five Government members, including His Excellency the Deputy Minister of MIREM (Chairman), 4 Civil Society members and four Private Sector members.

Mozambique's formal application to EITI was submitted April 23, 2009 to the EITI Secretariat in Oslo, including the application letter with the following attachments: a) a list of participants to the workshop to launch the EITI, 23 October 2008; b) the workshop's program and agenda; c) recommendations from the workshop to launch the EITI; d) the work plan after the workshop; e) Terms of Reference of the EITI Mozambique; f) and g) the composition of the Coordination Committee.

Also, the Government of Mozambique appointed Hon. Deputy Minister of Mineral Resources as leader in the implementation of the EITI in Mozambique.

Mozambique was formally accepted as a candidate Country in May 2009.

There is an operating Coordination Committee consisting of the Government, Private Sector, Civil Society and Academic. Likewise, there is a business Plan with a schedule for implementation of activities.

There is a budget for the implementation of activities that are dependent on or waiting for contribution from the partners. The Secretariat was also established with the Executive Secretary carrying out duties from April 1, 2010 and the selection of employees is currently taking place.

A workshop which will be jointly organized between the Executive Secretariat and the World Bank, a training and capacity building event that will involve about 100 people amongst international consultants, representatives of public and private domestic institutions related to EITI in Mozambique, is scheduled for the 19th and the 20th of May.

There will be a study trip to Ghana and Liberia (countries considered compliant and making progress in implementing EITI) in the second week of June, incorporating seven people to be appointed by the coordination committee with the following composition: two from the public sector, two from the private sector, two from civil society and the Chairman of the Coordinating Committee. The visit aims to acquaint members of the experiences of other countries in order to carry out actions to implement EITI.

Cross Cutting Issues

Performance evaluation in the light of the 2010 PES / PAF indicators

Performance levels in the cross cutting areas based on PAF 2009 indicators is good. Many of the targets were met and exceeded.

Area of HIV and AIDS

Prevention stood out in 2009 with the formulation of the new National Strategy Plan to Fight AIDS, PEN III, 2010-2014, already approved by the Council of Ministers. The document emphasizes the multisectoral approach, based on principles amongst which are, decentralization, the economy of resources and maximizing their usefulness, and guidance based on evidence. It includes operational matrices, which will facilitate the production of operational plans.

The performance of the leaders, taking as basis a *mozambicanization* of the messages and the responses recommended in the Presidential Initiative, which gave visibility to the advocacy. Combating Stigma and discrimination against People Living With HIV/AIDS (PLWHA) has made significant steps with the parliamentary approval of Law No. 12/09, on 13 March. Another milestone was the passage of the law against violence against women that combines tools that could be used to combat sexual violence and with it the rise of HIV infection.

Achievements in research, demonstrated by the results of the round of sentinel surveillance for the period of 2009, which serves to estimate the demographic impact, also stand out. The round revealed a national prevalence of 15%. The database on the National Assessment of Expenses with HIV (NASA / MEGAS) for the period 2006-2008 was completed, as well as the UNGASS report covering the years 2008 to 2009.

The slow progress to universal access remains a major challenge, as is also the issue of data management systems and limited access to data on the epidemic.

Regarding the financing of the national response, the Fund for Rapid Results was introduced in 2009, and the National AIDS Council (NAC) began their withdrawal in the management of grants to fully occupy the coordination and facilitation of the response.

In terms of the National Council to Combat AIDS' financial execution in 2009, the reduction of partner contributions by 50% over the previous year should be emphasised. The domestic contribution has not increased remarkably either. Thus, the financial execution of the NAC stood at 90.59% in relation to the internal budget from an appropriation of \$ 2,229.17, and in relation to the external budget was 90.23%, from an appropriation of \$ 11,098.05.

Performance in the light of the PAF 2009 indicators

PAF Indicator # 37: % and (No.) of HIV positive pregnant women receiving ARVT drugs in the last 12 months to reduce the risk of Mother-to-Child Transmission (PMTCT)

Target for 2009: 50,185 (48.2%)

Achieved in 2009: 66,615 (64% using the original denominator, and 44.7% using the denominator updated in 2008).

Remarks

The **target** was met and exceeded. The number of HIV positive pregnant women receiving ARVT drugs for prevention of virus transmission from mother to child transmission (PMTCT) was 66,615 (the target was 50,185). Compared with the year 2008, progress was made, given that only 46,848 HIV positive pregnant women received ARVT drugs for prevention of vertical transmission (32.1% coverage).

Gender

There has been progress in some sectors in the area of violence, with the elaboration of the protocol on integrated care and training in the area of violence, the production of materials for Information, Education and Communication, planning and budgeting from the gender perspective. However, a lack of systematic disaggregated data per gender to provide evidence and to influence policy remains in all sectors. A worrying aspect is the (non) compliance with the methodological guidelines on gender integration by sectors.

Environment

Global warming combined with Climate Change poses major environmental challenges to the country in terms of management of natural resources, the impact of mega-projects, and embarking on a path of sustainable development. Thus, environmental issues should be given increasingly greater emphasis on national strategies and sectoral plans at all levels.

According to the strategic matrix of PARPA II, the only environment indicator is linked to the preparation of the 40 district strategic development plans (PEDDs), aiming to improve planning and land use. This indicator was met in 2008 and 2009, in advance. The Planning and Land Management is one of the major environmental priorities in the country. Given its large contribution to improving land use and quality of life, the elaboration of plans for land use should continue until the remaining 88 districts are covered. In order to enable local and district governments to respond effectively to the challenges of spatial planning the Higher Institute for Physical and Environmental Planning (Decree 55/2009) was created in 2009 and is currently functioning with 86 students from all provinces, including the central level.

The year 2009 was marked by great advances in the areas of environmental education through the Launch of the National Campaign for Environmental Education, headed by His Excellency the President of the Republic of Mozambique, in which close to 2000 guests took part (at the national level, Provincial and District Governments); the training of 203 environmental educators across the country,

especially the Directors of the District Services for Planning and Infrastructure; and, the identification of 128 locations perceived as the most critical in terms of severity of environmental problems.

In order to reduce loss of natural resources, the systematization of data on the occurrence of major outbreaks of fires in the districts, the survey data on Soil Erosion (Manica province) as well as survey data on greenhouse gases covering the areas of agriculture, forestry, solid waste and industrial processes, were completed.

In the same period we witnessed a proliferation of efforts of partnerships in areas such as Climate Change, deforestation (through mechanisms such as REDD – Reduction of Emissions from Deforestation and forest Degradation) and soil degradation. It should be noted that in the period under review, the major environmental challenges on the international agenda focused on Climate Change, with symposiums and discussions at many levels nationally and internationally, in order to reach consensus towards the Conference of Parties (COP-15) in Denmark, held in late 2009.

Clearance of Landmines

The clearance of landmines programme had satisfactory results in 2009, with clearance of 3.7 million m². As a result, the remaining territorial extent for demining by 2014 dropped to 9.4 million square meters, equating to 322 areas in the provinces of Tete, Manica, Sofala, Inhambane, Gaza and Maputo, of the 12 million m² identified, corresponding to 541 areas for basic search in 2007/8. In terms of annual targets, the clearance of landmines has been achieved, the 3.6 million square meters planned for the year under review and the provision of civic education was also met. The major areas of greater performance were the demining and the provision of civic education on the danger of landmines.

In terms of funding the programme in 2009, the international community contributed USD 5.9 million and the State with USD 3 million. The execution of the Operating Budget was 90% and the execution of the Investment Budget was 50%. The low level of implementation of EO was due to delays in the processing of administrative procedures relating to State procurement of goods and services.

For completion of mine clearance by 2014, **the big challenge is to mobilize sustainable financial resources previously estimated at USD 35 million, requiring a guarantee of prognosis of receipt of these resources in order to allow effective planning of the activity**, allowing the clearance of all economic and social objects affected by mines, including the high voltage pylons Maputo-Komatipoort, the High Voltage Line Beira I and II, the Cahora Bassa belt, the boundary line between Mozambique and Zimbabwe, roads and bridges and areas of high potential for agriculture.

Science and technology

In the research area the role of scientific expeditions which enabled the mapping of the main constraints on the basis of scientific methods and techniques, the laboratory analysis of samples of lime to improve its use in the district of Panda, the realization of scientific events, identification of eight innovative scientists, creation of the Centre for Research and Development in Ethnobotany (CIDE), the funding of 48 research projects, grant of 46 scholarships for masters and doctorates, and 79 more for undergraduate students, are all noteworthy.

In the area of technology transfer and innovation five videos related to food production were produced and three Millennium Villages were also installed. In the field of ICT there was a significant price reduction for backbone in 2009 but prices are still above the levels that could be achieved. Prices for backbone impose significant transaction costs for its own services and for government networks and communities. For 2010, we expect a continuation of this downward trend, particularly through the introduction of new operators, effective regulation of the sector, and the development of applications. Regarding the dissemination and promotion of science we highlight, among several activities, the achievement of the Seventh Exhibition of S & T in Maputo City, with 61 exhibitors in 119 booths, representing an increase of 41% and 101% of number of exhibitors and stands in relation to the previous edition and its replica at the country level.

Regarding the budget it is important to point out that the resource envelope of the MCT was 38,053,232.8 MT of which 33,609,032.80 MT for operation and 4,444,200.00 MT for investment. Of this allocation, a level of performance of 95% was obtained in the operating budget and 69% at the investment budget level.

Food security and Nutrition

Food Security and Nutrition (SAN) in Mozambique is analyzed based on five important dimensions: Availability of food; Access to food; Use and utilization of food; Stability of Foods and Food Adequacy. Thus, taking into account these dimensions, one can say that the year 2009 was considered a “stable” year due to the good performance of the agricultural season 2008/09, where there was a substantial increase in production and availability of foods in the order of 13% for cereal production, 6.7% for legumes and 8.5% for cassava. Prices of staple foods were high, with increases exceeding 150% between March 2008 and March 2009. However, the situation has improved since September 2009.

The nutritional situation was critical, with high rates of Low Birth Weight (LBW) (11%), reflecting the poor state of health and/or nutrition during pregnancy and possibly having a negative impact on growth and development of children. Importantly, the LBW indicator is closely related to the indicator Height per Age, which defines chronic malnutrition, whose rates are very high in our country. The CI significantly improved (CI = 4%) being below the critical level (16%) defined by the MISAU. These improvements occur through the ongoing interventions that promote health and nutrition of children.

Continuing problems are to be noted with low usage and utilization of foods, sanitation remains precarious, nutrition education is weak and there is a record of cases of poor diet in the provinces of Cabo Delgado (20%), Gaza (20%), Tete (11%), Manica (10%) and Niassa (11%) as well as parts of Nampula and the Centre (Zambézia).

The number of people living under acute food and nutritional insecurity in the country was identified at 258,000 people in January 2009 and from May – August 2009: 281,300 people needed humanitarian assistance. Despite these figures, the situation of Nutricional and Food Security in the year 2009 is considered stable because there were no significant shocks to alter the way of life. However, this does not imply that there may have been outbreaks of localized food deficit.

Rural Development

The target for 2009 was of 10 Local Economic Development Agencies (LEDA) established and operating nationally. This target was met with the establishment of 10 LEDAs in 10 provinces. Under the Strategic Approach to Local Economic Development, the implementation of ART-PAPDEL programme was initiated, and the National Coordinating Committee (CNC) was created at National, Provincial and District level. Moreover, the new Board of Direction of the LEDAs Network was elected and Local Economic Development (LED) strategic focus in Mozambique was presented. In the same context, the perspective LED, 608 persons were trained in the provinces of Gaza, Inhambane, Nampula and Cabo Delgado. Procedures were developed for insertion, in the DEL perspective, in the District Strategic Development Plan (PEDD) and PESORs and the key sectors/relevant were contacted. When it comes to implementation of Projects with Community Impact 21 projects were evaluated, 9 approved and 3 were implemented (1 in Inhambane “Massinga” and two in Nampula “Memba and Mozambique Island”).

Natural Disasters

Compared to the two previous years, the cyclone and rainy season 2008/09 was characterized in general by the occurrence of heavy rains, localized flooding and strong winds that affected 703 people in Maputo Province and in Maputo City, 1,440 in Inhambane Province and 5,990 people in Niassa Province, in addition to the prevalence of food insecurity in some districts of the country. In response to these situations, the Government and Cooperating Partners provided humanitarian relief and reconstruction of infrastructure.

Working with prevention, simulation disaster exercises were conducted at the regional and national levels and Local Committees for Disaster Risk Management were created and the process of resettlement after floods in the Zambezi, Buzi and Save Valleys were strengthened.

In the development of arid areas actions continued to reduce vulnerability to drought, and water availability was increased, the establishment of demonstration fields for conservation agriculture practices and the establishment of the Multiple Use Resource Center in Mutarara, through programmes for the promotion and protection of livelihoods, food for work activities/assets’ creation and others.

Areas considered a priority are: i) integration of the indicators defined in the Master Plan for Prevention and Mitigation in the Economic and Social Plans and sectoral Budgets, ii) sector specific studies about the impact of climate change, iii) identifying and mapping areas at risk, potential resettlement areas in vulnerable locations to every kind of natural phenomena.