

## **Budget execution (excl. Tax)**

**PAF-performance: satisfactory**

### **Executive summary**

PAF-indicator: Spending in priority sectors at least 65% of total expenditure (excluding interest payments), of which at least fifty percent in education and health.

This indicator was nearly met. Spending in priority sectors thus far reached 64.1%, of which 51.4% in education and health (revised preliminary figures for the year 2004.) This is a slight increase over 2003 figures, in spite of the costs for the general elections which are not part of the priority expenditures.

The following observations can be made on budget execution in 2004, reflecting the key challenges for improving execution:

- There is still a lack of comprehensiveness of the budget, concerning both donor funds and receitas próprias. Reporting on execution of the external component of investments remains weak, with reported execution of 52%.
- Consistency of information and consolidation of records between different sources and stakeholders are improving, but are still inadequate.
- The flow of funds to sectors and provinces during the year remains uneven and unpredictable, also in view of changing budget allocations.
- The 65% indicator is not satisfactory in terms of measuring the way government is prioritising its expenditure.

PAF-indicator: Develop a methodology and choose sectors in order to implement budget programming, starting in five sectors, among which Education and Health.

The indicator was met, though the sequence of actions was changed at the Mid Year Review. It was felt that before proceeding to programme budgeting a clear view of total flow of funds in sectors would be needed, as well as stronger incorporation of off-budgets in planning and reporting. A study on health was initiated in 2004 and concluded end of March 2005. Its recommendations will be used in the budget preparation 2006. [to be discussed more in detail at a workshop end of April.]

### **Assessment of performance in 2004**

With less than one percentage point below target, the performance against the PAF-indicator on priority spending was satisfactory. Health and Education ended firm above the minimum requirement of fifty percent of spending in priority sectors. Seen in a wider context a substantial number of problems persist in the area of budget execution. The main ones can be summarized as follows:

Lack of comprehensiveness of the budget, concerning both donor funds and receitas próprias.

- Reporting on the execution of the external component of the investment budget remains weak. The apparently low execution rate of only 52% for the external investment component most likely reflects reporting problems rather than low execution. This figure is about the same as in 2003. This indicates that efforts for

capturing spending that are not mandated by DNCP have not made much progress in 2004.

- The problems start in the planning phase of the budget when projects are included which are unlikely to lead to disbursements or values are exaggerated. At the recording stage, the lack of information on actual spending is substantial. The BER contains a list of all registered disbursements in the investment budget by project. However, this list does not show the original budget allocation figures, nor does the BER include the list of projects (or their aggregate value) that had no (registered) execution at all. Comparison of execution for the listed projects with the original budget for these projects shows huge differences in execution, some far above the budget, others far below.
- An unknown number of projects is not captured at all, neither in the budget book nor in the execution report. In Health, these off-budgets represent 29% of total expenditure in the sector. The BER captures only a small amount of these funds as shown in annex 3 to the report.
- The information which donors provided to DCI in 2004 was apparently not helpful for making a more comprehensive budget execution report. First, the DCI exercise did not fit into the budget cycle. Second, given the different names and numbers used by donors and sectors, the information can be used only for plausibility checks on aggregates.
- Another item which has traditionally been completely off-budget are the receitas próprias. In 2004, the BER for the first time shows these off-budgets for Health and Interior in an annex to the report.

Consistency of information and consolidation of records between different sources and stakeholders are improving, but are still inadequate

- The Review is based on budget execution in the Balanço do PES and the BER, but figures are not suitable for a final assessment, because they are still very incomplete and preliminary. The Mapa Fiscal was adjusted after the IMF mission, and an extra fifty million dollar of execution in priority sectors was only reported in April, raising priority spending from 62.9% to 64.1%.
- BdP and BER use different methods for calculating total expenditure, which makes it difficult to compare the two documents. Apart from the registered expenditure by DNCP ("liquidada" and Operações de Tesouraria), the BdP includes an estimate for the donor expenditure for all priority expenditure. This estimate is distributed among all sectors according to the budget allocation. This leads to different numbers for all expenditures in the two documents.
- Though there is more cooperation between sectors and MPF on issues of financial management, it remains very difficult for sectors to recognise the figures presented in the BdP and the BER. Even after thorough analysis at sector-level many figures do not fit. This applies to the recurrent budget as well as to the internal component of the investment budget [to be followed up on basis of reports of sectors: Agriculture, Health, Education and Water]

The flow of funds to sectors and provinces within the year remains uneven and unpredictable, also in view of in-year changes of the budget.

- The BER does not compare expenditures against the original budget. Rather, it presents final allocations which include redistributions made after the expenditures

were booked, effectively adjusting budgets to expenditure rather than expenditure to budgets. This final reallocation is not even known to the sectors. As a comparison with the original budget demonstrates, the reallocations can be considerable, even though the total for the priority sectors does not change.

- Liquidity problems at the Treasury remained significant, especially during the first half of the year. This was felt in sectors and provinces. In the first six months the ministry of Health for instance only received eighteen percent of its duodecimas - the situation only improved from the third quarter onwards. The consequences of a salary increase early in the year added to the problem. The consequences were quite dramatic for the execution of the goods & services component of the budget. In education the reallocations were substantial, with final allocations for goods & services amounting to only half of the original allocation.
- During 2004, the Treasury had to take much more internal finance than had been budgeted (3.950 billion meticaï against 250 billion). In part this can be explained by the heritage of the end of 2003, when the government had to take substantial domestic credit. This had to be repaid in the first half of 2004, leading to new deficits. The net remaining internal finance was just over 2.000 billion meticaï (100 million USD). This figure does not seem to fit well with the mapa fiscal, which shows a negative figure for the net domestic financing.

The 65% indicator is not satisfactory for assessing the way government is prioritising its expenditure.

- The main indicator on the government finance is the 65% spent on priority sectors. This indicator is broad, but limits expenditure in non-priority areas and is therefore useful. However, the indicator includes all spending by projects administered directly by donors, which is not or hardly under control of the government and on which reliable information is lacking.
- For the budget execution of funds under government control the information is much more reliable. 'Despesa liquidada' in recurrent costs was 95.4% of the original budget (with 55.5% for the priority sectors). The execution of the internal component of the investment budget was 81.8% of original budget (only despesa liquidada; adding the non-classified advances the execution rate goes up to 98.7%). Spending in priority sectors was 61.4% against 62.5% in the original budget.
- The present indicator does not take into account the level of spending at provincial or district level. From the BER it appears that spending in the provinces in 2004 has been slow on the investment side (no registered expenditure at all by the end of the year - all advances still outstanding.)
- Finally, it remains questionable whether an analysis of the compliance with the 65% target should take advances relating to the internal recurrent and investment budgets that still haven't been verified and booked into account, since it is not certain that these amounts were actually spent. These advances are not high compared to the budget, but they are significant in comparison to the non-salary allocation (there are no advances for salaries). In addition, expenditures against the three main sector funds (Health, Education and ProAgri) had not been liquidated by the end of the year; here again, it is not clear whether these funds were actually spent in 2004. More rapid verification and recording of these funds is called for [to be followed up on basis of sector reports.]

### Other relevant issues on budget execution raised during the Joint Review and the Mid Year Review.

On most of these, little progress has been seen in 2004, but the situation looks more promising for 2005:

- The use of new classifiers (functional and source of funds) will start with the budget 2005 and will be used in the QBER, starting with the report on the second quarter.
- The format of the QBER will follow the format and classification in the new budget, which will add to transparency of the document (starting second quarter).
- Starting with the budget 2005 a short CFMP is used as first chapter of the OE, linking 2005 to provisions for 2006 and 2007. This is a step forward, though the CFMP still remains weak in costing the activities.
- Starting also with the budget 2005 the districts are treated as budget units with their own allocations and a start is made with integrating 'receitas próprias' in the budget.
- The budgeting of the Operações Financeiras remains difficult. The Acordos de Retrocessão were not covered by the original 2004 budget, while expenditure amounting to 860 billion MZM took place. More information will be shared on this issue between donors and GoM.
- The OE 2005, with considerable increases in income and spending, has not been discussed with the PAPs. Due to late approval of the budget, 2005 will be a difficult year in terms of executing the budget. The Joint Review will have to take into account how to deal with this when assessing performance in 2005.

### Develop a methodology and choose sectors in order to implement programme budgeting, starting in five sectors, among which Education and Health

- As first step a study has been executed in Health on off-budgets and how to incorporate them in the budget. Main finding of the study are that the level of off-budgets is considerable and that two thirds of the external funds in the investment budget is used for paying recurrent costs (“despesas de funcionamento”).
- Recommendations of the study (including on how to proceed with programme budgeting) will be discussed during the Joint Review in a workshop end April.

### **Key recommendations (with focus on PAF 2005/2006)**

#### **On a more comprehensive budget:**

- A task force on off-budgets should agree on definitions and indicate steps that need to be taken to get expenditures in Education 'on-SISTAFE' before the end of the year.
- This should include looking at the question if there is still a need for an off-budget study in education (now PAF-indicator for 2006).
- Tackling off-budgets is a shared responsibility for donors and GoM and should be reflected in both matrices (PAF and PAPsPAF) with clear indicators.

#### **On programme budgeting:**

- The PAF-indicator 2006 for introducing programme budgeting mentions just Health. With Education on-SISTAFE even before Health, Education could start programme budgeting also in 2006.

#### **On budget execution:**

- The discussion on new, improved indicators for spending priorities (including spending in provinces/districts) should start soon, in order to reach a conclusion at the Mid Year Review (for a detailed proposal see annex).
- Increased efforts are required to reduce discrepancies between central (DNCP) and sector-level records and between donor information and Ministry of Finance. SISTAFE can facilitate this process, but improvements would not be automatic.
- Reporting in the BER should include the original budget allocation and reflect the reallocations made during the year, in order to increase transparency.