

Working Group on Decentralisation: Contribution to the JR 2005

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Executive Summary

Government is **on track** with regard to deconcentration when measured against the indicators for 2004. Approval of the regulations of the Law 8/2003 was delayed but achieved in April 2005. In Nampula Province some profound and innovative work has been undertaken at district level with regard to participatory planning, district budgeting and local accountability. Nevertheless, in general **pertinent issues remain** with regard to the quality of district development plans and their vertical and horizontal integration, together with district budgets, into the national planning and budgeting process and in the context of the strategic objectives of the PARPA, the Public Sector Reform Strategy, and Government's five-year plan.

Budget allocation and execution at sub-national level continues to be a source of concern for the PAPs from a methodological, quantitative, and distributional point of view. Off-budget expenditure and revenue are not counted systematically and the percentage of the budget that goes to the provinces and districts is still not transparent in the sectors. The percentage of the budget that goes to the districts has remained virtually unchanged over the last ten years despite Government's commitment to decentralization. Furthermore, resources are not systematically allocated to areas with the highest poverty rates. The dynamic of municipal development can also be questioned, with the Government apparently concentrating more on "consolidation" than on quantitative and qualitative expansion.

The principal challenges in the coming years are (1) the consolidation of the elements of a decentralization policy through an operational strategy that takes into account territorial and sectoral aspects and provides a clear definition of functions and resource allocation for each level of the Mozambican public and municipal administration (with increased resources to the local level), (2) a corresponding and coherent integration and synchronisation of vertical and territorial planning and budgeting based on a legal framework; (3) the strengthening of accountability mechanisms at the level of the sub-national governments and municipalities; and (4) better integration of cross-cutting aspects in policies and programs, especially HIV/AIDS, the environment, natural resource management and gender.

Section 1: Progress on the PAF indicators

Indicator	Objective 2004	Achieved 2004	Qualification
Introduction of district planning (N° districts)	37	48	Objective surpassed
Date of approval of the Law 8/2003 regulations. Implementation of the law.	1st half 2004	Not approved	Objective not achieved

By the end of 2004, district participatory planning methodologies had been introduced in 48 districts in eight provinces. However, the quantitative nature of the indicator overlooks the quality of district plans. There is concern that the short-term priority plan elaboration may compromise the longer-term objective of focusing on participatory processes and capacity building for more effective service delivery. The extent to which community participation has been systematized in

the planning process is not yet clear, nor is the role of the district plan in the national planning system. The planning function of the district (as defined by the Local Government Act, “LOLE”) needs to be matched by a clear legal status for District Development Plans and district PES/budgets. The planning calendar for the preparation of the district, provincial and national PES/ budget needs, urgently, to be synchronized.

The draft LOLE regulations were discussed with administrators, sectoral ministries and donors and the final version was approved in April 2005, not in 2004 as foreseen in the PAF. One of the reasons for the delay was the revision of the Constitution. The Group is concerned about the consequences of the delay in approving the regulations, in particular with regard to their dissemination and application in the decentralized district planning programs.

Section 2: Performance in relation to Strategic Objectives

In the PAF matrix the area of decentralization is linked to the strategic objective "creation of a favourable environment for the private sector". It would be more appropriate if it were linked to the strategic objective of the reduction of poverty and regional inequalities.

As such, it is difficult to comment specifically on Government's performance against PAF objectives. Nevertheless, outside the decentralized planning and finance programme, progress on decentralization and deconcentration was limited in 2004, as evident in the *Balanço do PES*. In the Government Programme (1999-2004) and in the PARPA, local and municipal government (as well as the private sector, communities etc.) are given a major role as executing agencies for Central Government policy - with the latter given the responsibility for policy formulation, monitoring and the creation of a regulatory framework. There is, however, little evidence that this division of responsibilities has taken place, which in turn raises doubts about the pace of "gradualism".

Section 3: Provinces, districts and municipalities in budget execution in 2004

It is difficult to compare budget execution (*Orçamento do Estado*, “OE”) in 2004 with that in previous years as the *Conta Geral do Estado* (CGE) for 2004 is still not available. Figures from previous years show a considerable difference between the CGE and the actual budget figures.

According to the budget figures, the provincial share of allocations was 36% in 2004 compared to 34% in 2003 - a slight increase. However, if we compare this with the period 2000-2001 there is an overall downward trend. In 2004 the share of the investment budget was less than in 2003 although higher than 2000-2001, due to a rise in the central investment budget. The figures for the share of the recurrent budget were slightly higher than in 2003 at both provincial and central level. The budget figures for provincial expenditure in 2004 still do not include additional investments made through SWAPs or **off-budget expenditures**. Their inclusion might result in an effective doubling of provincial investment budgets.

Provincial expenditure is still geographically unequal both in relation to the recurrent and the investment budget. Although the respective shares of the recurrent budgets have been more or less stable over the last five years, per capita expenditure is still structurally favouring the provinces of Maputo, Sofala, Niassa and Tete, while the share of Zambezia and Nampula has been significantly lower. The allocation of recurrent expenditure tends to follow the size of the provincial state apparatus rather than population or poverty criteria. This distribution is even more distorted and variable for the investment budget over the same period. Maputo City, Niassa and Sofala received above average investment expenditure per capita, while Zambezia and Nampula have only 50% and 67% respectively. According to INE data, these two provinces together with Inhambane and Tete are the poorest in the country.

The total budget share of the 128 districts is about 1,2% (USD 15 million). Average expenditure per district (mainly recurrent expenditure) is about \$117.000 per year - the same as ten years ago. The 33 municipalities receive less than 1% of the total budget as a direct transfer (below the Government's own target of 1,5-3%). The total allocation to municipalities in 2004 was MZM200 billion (USD 10 million), 50% of which went to the five biggest municipalities (Maputo, Beira, Nampula, Nacala and Quelimane). The other 28 municipalities had to share the remainder, an average of some USD 180,000 each.

In comparative terms (based on a study by the Ministry of State Administration, MAE), economic activity in the 33 municipalities provides 85% of the fiscal revenue and 60% of GDP, whereas the Municipal Compensation Fund only represents about 1,1% of the budget (2002), and the *Fundo de Investimento de Iniciativas Locais* accounted for 0,7%. This means that the state only transferred 1,8% to the municipalities through these channels.

Section 4: Fundamental cross-cutting reforms

Decentralisation is one of the six key components of the **Public Sector Reform programme**. Although some ministries have pursued decentralization initiatives - for example, the Ministry of Industry and Commerce in the field of licensing - there is still no comprehensive and coordinated process with regard to decentralising functions, competences and resources to the lower levels of Government. The municipalisation process has virtually come to a standstill. Although municipal elections were held successfully at the end of 2003, no new municipalities have been declared. MAE is, however, conducting a study of which services could be decentralised to the municipalities in the light of the PARPA priorities which is a positive development.

Although there has been some progress in **public financial management**, there are also some concerns. **Progress** is linked to the successful efforts of district governments in Nampula province, facilitated by the national PPF, to promote a complete planning and budgeting cycle through the preparation of District Development Plans and district PES/budgets. The districts PES/budgets reflect all sources of revenue and income (fees, sector transfers, local taxes). This increases coherence and unity of the district budget, provides comprehensive information on resource availability, and leads to increased transparency. In addition, the district PES/budgets have been successfully harmonized with the provincial and sector PES/budgets.

An area of concern, though, is the fact that the district PES/budget is still unable to capture direct expenditure made at district level by ministries, which would facilitate clearer monitoring of overall expenditure. The importance of the mapping of **all internal and external investment by province, district and municipality**, which clearly defines responsibilities, is noted.

Another concern is the **financial management** of the **municipalities**, which due to the lack of adequate financial management systems and audits faces serious problems of inefficiency, accountability and transparency in the collection and use of funds and assets. It would be important to consider strengthening the financial management systems and the internal and external audit system through the *Inspecção Geral da Finanças* and the Administrative Tribunal, including the publication of Administrative Tribunal reports.

It would be useful to clarify how **SISTAFE** will be "piloted" in ministries and according to which timetable. The Group urges for a stronger commitment to using SISTAFE as a wider planning and public expenditure management tool (i.e. in the context of the *Cénario Fiscal de Médio Prazo and programme budgeting*) rather than a mere accounting package. (Input to be confirmed with the financial management group).

The integration of **HIV/AIDS** and **gender** in decentralization is a special challenge and some preliminary work on these issues is underway in the PPDF. In the same way work has started on placing **natural resource and environmental management** on the agendas of local government, an effort, which is being harmonised with Central Government (MICOA).

Section 5: Future expectations

There are reasons for some optimism. The new Government has reaffirmed its commitment to participatory planning and greater accountability. The consolidation of the elements of a decentralization **policy** (PAF indicator for 2005) through an operational strategy that takes into account territorial and sectoral aspects and provides a clear definition of functions and resource allocation will help the various levels of Government to reach agreement and work towards common objectives. It is recommended that the policy document results from a **consultative** process with local government and linked to the PARPA II process. It will be important to focus on the issue of “**subsidiarity**”, and define which functions of Government should be carried out at central, provincial, district and municipal level. “**Gradualism**” should be replaced with clear objectives and targets.

Another important milestone would be the **reconciliation of territorial and administrative planning with the logic of the vertical planning and budgeting system** based on a unitary legal framework. The innovative work in Nampula on the preparation of the district PES/budget and its harmonisation with the provincial/sector PES/budget has served as a model for the rest of the country and should continue to do so.

The **functional analysis and restructuring** of key ministries is extremely important for promoting decentralization and deconcentration. LOLE was considered in the preparation of the functional analyses, but the recently approved regulations, as well as the future policy/strategy on decentralization and deconcentration, should facilitate the integration of decentralization aspects into the restructuring of ministries. The elaboration of a strategic plan for MAE foreseen for the near future will hopefully help clarify additional issues, and should be seen as an opportunity to move further towards decentralization.

There is a need for a **manual on district finance**, which clarifies the district’s status as a budgetary unit, its integration into SISTAFE and its revenue collection and retention powers. DNPO should provide a detailed comparative analysis of expenditure on a territorial and per capita basis in the Budget Execution report for both the recurrent and the investment budgets. Consideration should be given to the establishment of formulae for allocating funds to the District Government as an essential prerequisite for a **stable and predictable inter-governmental fiscal transfer system**. As regards **procurement**, the lack of autonomy of the district and the absence of clear guidelines are an obstacle to decentralized planning. Revisions to the overall procurement system should take this into account. **Accountability** mechanisms in local government need to be more clearly defined and monitored, and a greater role given to the Institutions for Participatory Community Participation (*IPPCs*).

Finally, it is recommended that Government take the lead and exert stronger ownership of the national decentralization program. For the PAF MYR it would be useful if Government could define new **strategic indicators** for decentralization and deconcentration and link these to the appropriate strategic objectives.