

PAF 2005 Joint Review - SISTAFE

Summary

Critical progress achieved in the implementation of e-SISTAFE although considerable delays compared with plans.

e-SISTAFE went live in the Ministry of Planning and Finance (MPF) on the 1st of November 2004 allowing financial execution of the State budget through e-SISTAFE. It had been expected that general budget execution of the 2004 State Budget as well as direct budget execution in MPF and Ministry of Education through e-SISTAFE also would have been initiated in 2004. For a number of reasons this was not accomplished. Consequently the 2004 PAF indicator has only partially been met

Challenges remain in relation to reform management and implementation:

There is a need to ensure adequate project management capacity including transparent and efficient procurement arrangements. The IT-security audit to provide assurance about the security and integrity of data is to be undertaken as a matter of urgency.

UTRAFE will need to develop a clear Change Management strategy in order to respond more proactively to the changes associated with the reform within Ministry of Finance (MF) as well as within line ministries.

It is also recommended that UTRAFE elaborate an updated and user-friendly overview of the public financial management reform and its principal elements. This would include a full roll-out plan and a realistic timetable for the e-SISTAFE roll-out to be refined with the experience from Ministry of Education and Culture (MEC).

It is important to start updating in the context of the e-SISTAFE the current budget management practices and systems to improve transparency and efficiency and strengthen budgetary control. Budget coverage must be increased to gradually include all own-generated revenues of budget units and donor funds and to include these funds in e-SISTAFE budget execution.

IMF who has been the leading agency in the reform has signalled that it will redefine its role by the end of 2005. There is thus an urgent need to agree on the approach and scope of continuous support to the public financial management reform

Introduction

1. The 2004-06 PAF matrix has the following indicators related to the efficiency and effectiveness of the management of State funds:
 - Spending in PARPA priority sectors at least 65 pct. of total expenditure less interest payments. Of the 65 pct., at least half in education and in health;
 - Implement budgeting through programs, starting in 5 sectors, among which education and health;
 - Implement the e-SISTAFE.

The two first indicators will be commented elsewhere (PFM group).

2. The PAF target for 2004 in relation to the implementation of e-SISTAFE is roll-out of the system in the Ministry of Planning and Finance (MPF) including all provincial finance directorates and a pilot project in Ministry of Education.
3. 2005 PAF indicators (targets) for SISTAFE were not confirmed during the 2004 Mid Year Review. The SISTAFE Joint Review Working Group has agreed to recommend to the PAF Joint SC the following indicators for 2005:

- Preparation of semi-annual 2005 budget execution report on the basis of the e-SISTAFE using the new budget classifiers (due 15th August, 2005).
 - Roll-out of e-SISTAFE to Ministry for Education and Culture (MEC) will be completed by December 2005.
 - [Off-budgets. Need for target re. including donor funds in education in e-SISTAFE?]
4. A process for identifying and agreeing on 2006 PAF indicators between partners including the IMF before the 2005 Mid-Year Review needs to be established.

Comment [W1]: Has this been achieved? Is it possible given the fact that there is not yet a 2005 budget and budget execution is based on the 1/12th system?

Comments on performance in 2004 (against PAF indicator and strategic commitments and objectives)

1. On November 1 of 2004 e-SISTAFE went live in the MPF allowing financial execution (and not budget execution) of the State budget through e-SISTAFE and payment of tax revenue into the Single Treasury Account (CUT) at the Central Bank of Mozambique, and payments made by the National Treasury and the Provincial Directorates of Planning and Finance (DPPFs). The financial execution involves electronic transfers of all revenues from revenue collecting units' bank accounts into the Single Treasury Account with automatic identification of origin in e-SISTAFE. All payments from the Single Treasury Account are likewise performed as electronic transfers to destination bank accounts commanded by e-SISTAFE and registered according to executing budget unit. For a plan of the roll-out of further functionalities during 2005 see annex I.
2. An important condition for the introduction of e-SISTAFE was the creation of the Single Treasury Account in the Banco de Mozambique. With the opening of the CUT-virtual - or Single Treasury Account - on the 1st of November 2004 the majority of Treasury accounts in the Provinces and at central level were closed, their saldos transferred to the Single Treasury Account and a corresponding number of virtual accounts were opened in e-SISTAFE
3. The introduction of financial execution through e-SISTAFE has been welcomed at the level of the DPPF's as the speed of transfers of funds from central to provincial level has been increased and available liquidity is better used. Furthermore, training activities in e-SISTAFE undertaken in 2004 has been assessed positively at provincial level.
4. However, it was expected that budget execution through e-SISTAFE should have been initiated in 2004. For a number of reasons this was not accomplished.
 - It turned out to be difficult to consolidate in the necessary detail the e-CUT with Treasury Revenue and Expenses at central and provincial level.
 - Furthermore it turned out to be a too complex task to close the "Ecação Contabilistica" between the actual accounting system (Livro 16 and 17) and the registered financial transactions in the Treasury system.
 - Finally it turned out to be hard to get an updated version of central and provincial budgets because of a lack of registration of budget redistributions (changes) performed during 2004.

Comment [W2]: Is it an issue of consolidation of reconciliation?

Comment [W3]: Why? Is this also a problem of reconciliation?. What are the causes → could be a 'content' reason (data in one or both data sets are incorrect or incomplete) or could be for technical reasons (for example no clear rules on how registration of financial transactions relate to accounting).

For these reasons the process in digitalization of manually kept records in Livro 16 and 17 into e-SISTAFE was given up and budget execution with an updated expenditure position in e-SISTAFE against the 2004 budget was abandoned in the remaining months of 2004.

5. As the digitalization of the entire budget execution recorded in the manual system since the start of the fiscal year was not achieved in the first part of 2004 (cf. above) the operational roll out in Ministry of Education had to be postponed to mid-2005.

6. The e-CUT Fisica has been in operation since 2 January 2004. The e-CUT Fisica is intended to identify and track all transactions affecting state accounts in the banking system of Mozambique and to provide a better control over state bank balances. A total of around 12.000 government bank accounts were initially identified in the e-CUT. Since then this number has been reduced to about 6.000 as inactive bank accounts have been closed by Treasury.
7. Legal coverage of the implementation and roll-out of e-SISTAFE is fully guaranteed by the approval by the Council of Ministers on 30/06/2004 of the Decrees that approve the SISTAFE, harmonized with its conceptual model, and revoke Decree 17/2002.
8. Management within UTRAFE has been strengthened during 2004 and e.g. project planning and reporting have improved in terms of quality as well as timeliness. There is, however, still scope for improvement in the resources, organization and planning. The project manager has been in place since June 2004, but the international project management advisor has still not been recruited. There continue to be concerns about UTRAFE's limited procurement capacity (especially taking into account the increasing programme costs).

Comment [W4]: This is a bit overlapping with point 4.

Comments on remaining issues and challenges

1. There continue to be a need to have an updated and user-friendly overview of the public financial management reform and its principal elements. This would include a full roll-out plan and a realistic timetable for the e-SISTAFE roll-out based on the experience from MEC. A preliminary master plan and a preliminary roll out plan for 2005-08 have been developed at the end of 2004 and will be assessed by the QAG in May 2005.
2. Institutional capacity building will be brought more in focus as the e-SISTAFE is expanded to include the rest of MF and MEC, followed by the implementation of the system in remaining ministries. UTRAFE will need to develop a clear change management strategy in order to respond more proactively to the changes associated with the reform within MF as well as within line ministries. A Change Management Advisor will start working in May 2005 to assist UTRAFE with i.e. developing a change management strategy, and strengthening the Change Management capacity in the e-SISTAFE roll-out teams.
3. Focus on ensuring adequate project management capacity including procurement capacity must be maintained. It is a matter of urgency to undertake an IT-security audit to provide assurance about the security and integrity of data.
4. Concerns have been raised over the sustainability of capacity building and management of the skills transfer process from the international consultants and advisors to local counterparts. It is important to ensure that effective capacity is built in the current support (during 2005) and that new support is based on an explicit strategy for the role of technical assistance in capacity building.
5. IMF who has been the leading agency in the reform has signalled that it will redefine its role by the end of 2005. There is thus an urgent need to agree on the approach and scope of continuous support to the public financial management reform and possible commitment of funds for 2006-08 including government contributions.
6. It is important to update current budget management practices to improve transparency and efficiency and strengthen budgetary control in the context of further broadening and deepening the e-SISTAFE implementation. UTRAFE and DNO are analyzing how to proceed.
7. Budget coverage must be increased to gradually include all own-generated revenues of budget units and donor funds and to include all (donor and own-revenue) funds in e-SISTAFE. In terms of

stakeholder coordination and communication clear operational guidelines for bringing donor funds within the state finances through e-SISTAFE would be welcomed. Donors are committed to assist and facilitate the process to the extent possible. A specific task force will be created, consisting of representatives from the Government as well as the international partners, to address the off-budget issue.

8. UTRAFE and DNT are analyzing the need to updating the 1/2004 Diploma regulating the e-CUT Física including the compliance of commercial banks in light of the opening of the e-CUT virtual.
9. e-SISTAFE will significantly improve the ability of the IGF and the TA to perform audits of government sector financial management as transparency is improved and easier access to financial transactions throughout the government sector is provided. The IGF is part of the UTRAFE management structure and has participated in the technical committees developing the SISTAFE conceptual model and the dialogue between the partners must be further deepened. UTRAFE and TA have held a number of meetings regarding the development of e-SISATAFE, but there is nevertheless a need for improving the dialogue between the MF and TA in light of the upcoming roll-out of e-SISTAFE.
10. There seems to be a need to clarify the division of responsibility in relation to e-SISTAFE (e.g. budget) between MF and the Ministry of Development and Planning (MDP). The impact of the divisions of these two ministries on the roll-out and the 2004 PAF-indicator on roll-out to MPF is being analysed by UTRAFE.
11. It is important that SISTAFE is in line with other inter-related PSR processes (payroll reform, deconcentration of central government to district level, etc.) and public financial management capacity building initiatives in MF (and MDP). There seems to be a need to start improving coordination of non-core SISTAFE modules i.e. payroll, state assets etc. between UTRAFE and UTRESP.

Appendix 1 Expected roll-out in 2005

The SISTAFE implementation activities in 2005 are planned to achieve:

Phase I

Stabilization of the Financial Execution through e-SISTAFE of the 2005 state budget through interventions in the National and Provincial Treasuries in the Ministry of Finance and in the Central Bank of Mozambique enabling automatic reconciliation between economic transactions registered in e-SISTAFE and physical transactions in the Single Treasury Account in the Central Bank of Mozambique until May 2005.

Classification of all revenue collected and transferred to the Single Treasury Account in the first semester of 2005 by the Revenue Service of Mozambique using the revenue classifiers in the 2005 state budget by August 2005 and subsequent current classification of collected revenue through the remainder of 2005.

Phase II

Implementation of e-SISTAFE in the Special UGE's in the Ministry of Finance enabling the initiation of budget execution of the state budget 2005 by June 2005. The budget execution will not be direct but will encompass advance payments to all sector ministries through e-SISTAFE with subsequent accounting for expenses by sector ministries through the Ministry of Finance's Special UGE's in e-SISTAFE against the budget limits in the 2005 state budget. Initial activities by the Special UGE's will consist in accounting for all advance payments to sector ministries executed through e-SISTAFE financial execution from January 1st till the time of the implementation of the Special UGE's. This version - apart from providing core Treasury, Budget and Accounting (TOC) functionality - will introduce Financial Programming by Treasury thus enabling the Ministry of Finance to establish spending priorities in e-SISTAFE according to available and forecasted liquidity in the Single Treasury Account, according to availability of funds by revenue source and by other classifiers, this being a prerequisite for moving to phase III and enable direct budget execution (outside Treasury's manual control of spending priorities).

Phase III

Implementation of e-SISTAFE with direct budget execution in the DAF's of the Ministry of Finance and Ministry of Education and Culture by September 2005. This version of e-SISTAFE will provide most of the core TOC functionality; budget maintenance, functionality for direct budget execution including payments and transfers through the banking system, thus enabling on-line enforcement of budget limits at the time of expenditure decisions.