

## SISTAFE Working Group Note for the 2006 Joint Review

### 1. Executive summary

2005 saw the initiation of the use of e-SISTAFE for budget execution and budget accounting and reporting. Some significant steps have been taken but, as in previous years, there have been significant delays compared to the agreed planning.

In September a version of e-SISTAFE for '**indirect budget execution**' was rolled out to special management units in the MoF, which allowed them to execute advance payments to spending units through e-SISTAFE. This version was delivered with delays and required significant additional refinement work, but is now functioning. The implementation of this version also allowed e-SISTAFE to generate budget execution reports (a PAF target, achieved with a slight delay).

The development and roll-out to three pilot ministries of '**direct budget execution**', which would allow line ministries to execute their own transactions through e-SISTAFE and directly pay these from the single treasury account, was planned for November 2005 but was not achieved. However, an intermediate version with some of the functionalities and limited to execution of payments of recurrent goods and services was developed and rolled out to MEC, MF and MPD. The related target is therefore considered as partially achieved.

The **2006 PAF target** was agreed during the Joint Review, and relates to the full development of 'direct budget execution' and its roll-out to the three pilot ministries and three additional ministries (Health, Public Works, Agriculture) by June 2006. The further development and roll-out of the basic functionalities (budget, execution, accounting, treasury) should be the main focus for 2006.

The delays and concerns over the cost and cost sustainability of the reform caused a delay in the approval of a new **MoU and Action Plan** for the reform. Their Adoption is planned for June 2006. These documents should include the necessary measures to ensure a strengthened focus on project management and delivery, as well as budget control.

### 2. Assessment of performance with regard to the 2005 PAF targets

Indicator/ Action	Target for 2005	Achievement	Rating
Implement e-SISTAFE	Preparation of a semi-annual budget execution report on the basis of e-SISTAFE using new budget classifiers due 15 August	Achieved in early September 2005	<b>Achieved with delay</b>
	Roll-out of e-SISTAFE to MEC to be completed by December 2005	Roll-out of a e-SISTAFE version with a limited number of the planned functionalities to MEC	<b>Partially achieved</b>

### 3. Detailed evaluation of the performance in 2005

In 2005 activities focused on the development and roll-out of the e-SISTAFE versions that would allow the achievement of the objectives in the core areas of budget, budget execution, treasury and accounting. Some significant steps have been taken but, as in previous years, there have been significant delays compared to the agreed planning.

#### Development of e-SISTAFE for budget execution and accounting

In 2004 financial execution of the budget through e-SISTAFE was initiated and the Single Treasury Account (STA) implemented. 2005 saw **the initiation of the use of e-SISTAFE as the core instrument for budget execution and accounting**, although not all planned targets were achieved.

This initiation of the use of e-SISTAFE for budget execution was mainly achieved through the development and roll-out in the MoF of a version of e-SISTAFE for '**indirect budget execution**' (called 'Changara'). This allows special management units in the MoF (Special UGEs) to execute advance payments to spending units ('adiantamentos') through e-SISTAFE (checking availability of a budget appropriation as well as availability of funds ('financial programming'), execution of the payment and entry of the subsequent accounting of the use of the funds in e-SISTAFE). This version of e-SISTAFE was delivered with two months delay but is now functioning, although significant additional and unplanned work has gone in the fine-tuning of the version. Also the new financial programming (execution of payments taking into account availability of funds in the STA) still needs to be strengthened.

The 'Changara' version also made it possible for e-SISTAFE to generate **budget execution reports**. The first budget execution report generated by e-SISTAFE was delivered in September 2005, within a month after the original plan. In 2005 these reports were generated in parallel with the budget execution reports generated by the old (manual) approach. The reports generated by e-SISTAFE in 2005 by e-SISTAFE are not yet fully covering all expenditures because of the complexity of the regularization process (entering of budget execution data from the old system into e-SISTAFE). The regularization of 2005 is almost done and will not be relevant in 2006 and beyond.

Full achievement of the intended objectives of e-SISTAFE requires the introduction of a '**direct budget execution**' version, which would allow 'execution management units' (UGEs) in the Ministries to execute the budget and make payments from the STA directly through e-SISTAFE, thereby allowing the abolition of the system of advance payments to these units. This would increase the transparency of the budget execution (status of budget execution can be monitored centrally) and would ensure strict adherence to the appropriations set in the budget.

The development and roll-out to three pilot ministries (MEC, MoF, MPD) of the '**direct budget execution**' version of e-SISTAFE (called 'Homoine') was planned for November 2005, but has not been achieved. These delays were mainly caused by the additional work required for the fine-tuning of the 'Changara' version of e-SISTAFE.

However, an **intermediate version** of e-SISTAFE (called 'Changara+') with some of the functionalities and covering some of the budget has been rolled-out to the three pilot ministries (at central and provincial level) This version allows users in the pilot Ministries to make payments directly (from the STA) to suppliers against approved budgets, but it does so without the prepayment confirmation that goods and services have been received (as envisaged in the conceptual design). This version is also limited to goods and services and does not extend to salaries, pensions or internal and external investments.

The revised plan for 2006 envisages the development of the full 'direct budget execution' version of e-SISTAFE and its roll-out to the three pilot ministries as well as three other ministries (MISau, MOPH, MinAgri) by June 2006.

All of the above evolutions form an important step towards the realization of the SISTAFE targets of improved flow of funds, increased transparency, budget adherence, improved cash flow management and improved accounting and reporting. The application in its current form and stage of roll-out has some impact on above targets, but still limited. In addition, the start up of the roll-out has also caused temporary problems in budget execution (delays in payments). The major impact will only be achieved with the delivery of the direct budget execution version and its roll-out to a significant number of ministries.

#### **Other functionalities and tasks**

**STA and Bank Account Reconciliation.** In 2005 the original concept of a virtual e-CUTfisica (a virtual single treasury account with funds in BdM and private bank accounts) was abandoned and replaced with a STA which is centralized in the BdM. This was done mainly because of non-adherence by the private banks to the rules of the system. With the introduction of the 'financial execution' module in 2004 a form of e-banking from e-SISTAFE was introduced. Further work on upgrading this system has been ongoing in 2005 (linked to the development of a real time clearing system between BdM and commercial banks). Also a more automated reconciliation between BdM bank records and e-SISTAFE records has been under development. Further refinements are necessary in 2006 in order to automate the process and introduce further necessary functionality.

**Classification of receipts.** UTRAFE has successfully classified all receipts from 2005 transferred into the STA. However, the process of receipt classification is manual and troublesome and further work in this area is required and planned.

**Budget preparation and reform.** The entry of the 2005 budget into e-SISTAFE was again difficult because the data had to be exported from a different application (SISORC) in which the used classification is not fully compatible and because of the late adoption of the 2005 budget and the in-year entry of data. Input into e-SISTAFE of the 2006 budget was done on time. The planning for 2006 foresees the development of a budget preparation module in e-SISTAFE, of which a preliminary version should be ready by mid 2006 to prepare the 2007 budget; and a final version by the end of 2006 to prepare the 2008 budget and beyond.

**Inclusion of Donor Funds in budget and budget execution.** UTRAFE has been participating actively in the Task Force on off-budgets and has been involved in preparatory actions for bringing funds on-budget, on-reporting and on-CUT, most notably through the preparation of guidelines on 'reporting for on-budget (but off-cut) projects' and on 'bringing projects on-CUT' (both still to be finally approved). The entry of data on execution of on-budget projects into e-SISTAFE and the channeling of some external financing (projects) through the STA is planned for 2006.

#### **Project and change management**

There are continued concerns over the **planning and budgeting capacity** within UTRAFE. These are mainly caused by the additional delays in the key deliverables compared to the planning that was updated in May 2005.

In addition there is concern over the cost and long term cost sustainability of the project, as well as over the budget control capacity of UTRAFE. These concerns are caused by the fact that actual expenditure in 2005 was in excess of the agreed budget, because of delay in the financial reporting and because of significant increases in the budget for 2006 compared to earlier budget proposals in the provisional Action Plan and Budget made in October 2005.

A baseline study to assess spending and deliveries up to this point is currently being tendered. The results of this study will need to be incorporated in future management and planning.

In response to concerns over planning and delivery, UTRAFE has reorganized its activities as of late 2005. UTRAFE is now organized in three main areas, CPD, Back-office and Roll-out and Change Management

The 2004 Joint Review identified **capacity and knowledge transfer** as critical issues. UTRAFE is pursuing a strategy of capacity building in relevant areas (ICT management and operations, systems development and back-office operations) involving both the MoF and Universities in the Maputo area. Especially in the area of systems development efforts will need to be continued and intensified.

The major focus of UTRAFE has been on the development and roll-out of the e-SISTAFE application. Its role in the **wider coordination of public finance reform** has been less explicit. This is not necessarily a bad thing. However it does mean that coordination with other units in the MoF and with other reform processes in PFM and Public Sector Reform will need to be clarified, particularly as UTRAFE initiates work on highly interrelated areas such as payroll, state assets and roll out to decentralized entities.

The 2005 JR expressed the need for a **change management** strategy to be developed and implemented by UTRAFE as it took on the roll-out to line ministries. A number of steps have been taken such as the contracting of a consultant working on the integration of communication, training and change management and the anchoring of change management activities in a specific organizational unit of UTRAFE. UTRAFE will need to ensure that lessons are drawn from the initial roll-out experience.

An **IT-audit** still has not been performed, despite the fact that the execution of an IT audit has been mentioned as a matter of urgency in both the 2005 JR and MYR reports. The need to perform such an audit remains important and urgent to ensure that the current set-up provides sufficient guarantees for the security and integrity of the data. The tendering process is ongoing. This audit must be performed in the first half of 2006, as a matter of urgency.

#### 4. Key lessons learnt in 2005 with bearing on 2006 and the planning and budgeting process 2007

Originally a new MoU and Action Plan and Budget (APB) for the period 2006-2008 were to have been agreed at the end of 2005. An APB was prepared in a process which included significant dialogue with stakeholders. However, one of the key assumptions of the APB (delivery of the 'direct budget execution' version) was not achieved. In addition the Quality Assurance Group and Common Fund Partners felt that a new MoU would need to include innovative mechanisms to ensure a stronger focus on delivery and budget control. It was therefore decided to postpone the signing of a new MoU with six months to allow time to achieve the development of the 'direct budget execution' version and to elaborate a new MoU. The current MoU was extended by seven months and UTRAFE has prepared a Bridging Plan and Budget for this interim period. The approval of this bridging plan was difficult because of the anticipated increase in budget and the definition of the deliverables. The bridging plan has been approved in March 2006.

Agreement on a **new MoU and APB for 2006-2008** should now be achieved by June 2006 to ensure that Common Fund Partners can achieve a timely release of funds for the second semester and following years. The new MoU and Action Plan will need to contain clear mechanisms to enhance the focus on on-time and in-budget delivery. UTRAFE should also improve its management and contracting procedures to improve the focus on results.

As already stipulated in the MYR note, the **primary focus** in the APB must be on the development and roll-out of the functionalities in the areas of treasury, budget and accounting. Development of other functionalities should be based on clearly developed business cases and in a clear coordination with other related reforms. The APB should also incorporate the findings of the IT audit and baseline study will have to take place in the first semester of 2006.

The budget will need to contain a clearer distinction between development cost and running/operational costs. Common Fund Partners expect GoM to take on a larger stake in the overall financing of the reform, in particular to cover the running costs of the application. This will need to be taken into account in the Action Plan and Budget and in **2007 State Budget**.

