Sida Evaluation 04/29

# Mozambique State Financial Management Project (SFMP)

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Department for Democracy
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and Department for Africa

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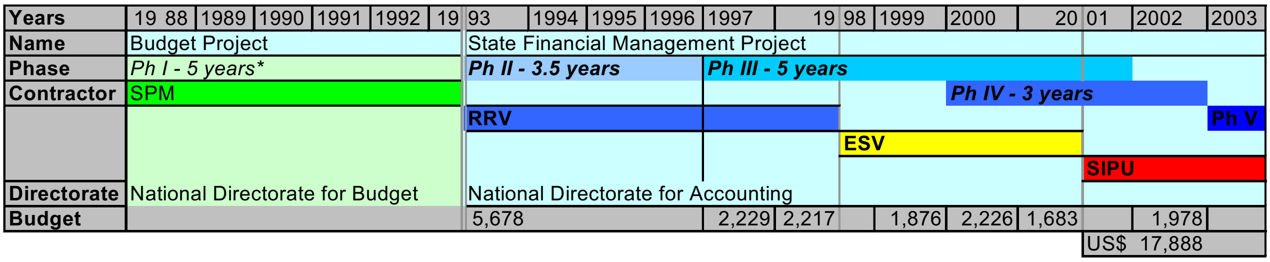
# Executive Summary

## Introduction

This document is an external evaluation report commissioned by the Swedish International Development Cooperation Agency (Sida) of the State Financial Management Project (SFMP), Mozambique. This Sida supported project, located within the Ministry of Planning and Finance (MPF), ran from mid 1988 until project closure in December 2003.

The project sought to both reform and build capacity in budget preparation and budget execution/accounting, aiming at the control of expenditure in accordance with budget and the reporting thereof. Support components included training and computerisation. Figure 1 summarises the phases of the project, the contractors responsible, the directorates within MPF and the costs (converted to US Dollar at an approximate rate for the year.).

**Figure 1: SFMP phases, contractors[1] and budget (US Dollar ,000)**




In addition to the phases the project falls into two distinct parts, within which there were different issues and measures of success:

- work on reinstating the system existing at the time the project started, up to the passing of a new budget law (1997) and the presentation of the first state accounts (1998); and,
- from 1998, the development of a new accounting model and law and design for an integrated financial management system.

## Terms of reference

The report covers a ten-year period from January 1994. The terms of reference (appendix A) stipulate the evaluation of the normal requirements of project efficiency and effectiveness, relevance in addressing weaknesses and coherence to the reform needs. Emphasis is placed on the need to consider the MPF ownership and any trade-off between ownership and results. There is a further requirement to examine the accounting model developed in the second half of the project and compare this with the current (replacement) model. Finally, in view of the importance of public financial management (PFM) reform, the report is required to highlight lessons for the future, both for Sida and MPF, and for other donors and countries.

[1] Swedish National Audit Office (herein referred to as RRV), the Swedish National Financial Management Authority (ESV) and the Swedish Institute for Public Administration (SIPU).

## Starting point

The starting point for the project saw state accounting in disarray, with antiquated law and regulation, uncertainty about procedures, irregularity, lack of political process in budget presentation and no report of accounts (since 1975). There were serious capacity weaknesses to assess and devise policy and systems and a lack of computer literacy. Following the rejection by MPF of the model for reform that emerged from phase 1, a decision was made at the start of the period under review to work with the existing budget execution system, bring clarity through documentation and simplification, including the computerisation of selected processes and to concentrate on basic training for finance staff to overcome lack of understanding, ability or willingness to use the system.

## Achievements and impact

Following the innate Sida philosophy of partnership, ownership and long-term commitment (defined from the outset as 10–15 years), the project got a lot right, recognising:

- the long term nature of what was being embarked upon;
- that MPF were seeking cautious, gradual and incremental improvements;
- that ownership and close integration of the project to MPF were essential elements;
- that complex modernisation was not going to be achieved with the then capacity.

The major achievements can be listed as follows:

- documented public accounting system with system/training manuals;
- new law for budget and accounts (15/97) together with new classifiers (decree 25/97);
- MPF training department, equipped with strategy, policy and procedures;
- major training programme covering, budget, accounting, classifiers, use of computers;
- enhanced human capacity within MPF (and beyond);
- computerisation of key functions within the system;
- from 1998 presentation to the supreme audit institution and parliament of state accounts (for the first time since 1975);
- quarterly budget execution reports from 2000;
- a modernised accounting model, chart of accounts and new law in 2002;
- a significant reduction of risk that public funds are not used for approved purposes in accord with the budget (appendix E);
- a "platform" for change and modernisation including the introduction of an integrated financial management system.

Seen as a capacity building programme, supporting a general direction or incremental improvement over time, a positive judgement can be made on this list of achievements. Seen as a modernization project with hard outputs to address the weaknesses identified, a different measure is needed.

## Efficiency and effectiveness

It has been difficult to judge efficiency and effectiveness. The purpose of the project (i.e. the alignment of managing public resources with meeting policy objectives), was removed from the activities and outputs, at least for the first half of the review period. Further, the outputs were loosely defined and not given verifiable indicators or a clear time line for achievement. The project design should perhaps, have been based more on a sound institutional assessment of capacity, the institutional environment and incentives to reform, and then more precisely defined.

In input cost terms it can be determined that these were reasonable. There was no obvious wasteful over-resourcing or duplication. Consultants have been of high calibre (at least for the later phases of the project). However, making a value-for-money judgement is more problematical because value must be linked to efficient output. To judge this we look at the project in absolute terms i.e., at what has been achieved and over what time.

From this standpoint we judge the project progress to have been slow, particularly during the first three years under review (1994–97). It is difficult to see why this was so but in the following are summarised what are believed to be contributory reasons.

## Project management

There are inherent risks within Sida's aid philosophy of long-term commitment and potential conflict between achieving results and close partnership. It is contended that more rigorous project management, including institutional assessment and diagnostic work, design and appraisal and monitoring, would have helped mitigate these risks. This would include a clearer definition of purpose, outputs, activities and a clear project timeline and verifiable indicators.

There also appear to be risks with the use of Swedish state bodies in the contractor role (in this case RRV and ESV). These arise from issues of incentive, potential conflict with their prime Swedish public sector role and issues of capacity, particularly in countries like Mozambique with a language issue. This was balanced by RRV/ESV providing important technical backstopping to the project team and high calibre resources for short-term assignments.

We feel the balance of incentives within the project may have favoured the status quo ante, rather than results. Review points with a more rigorous process and less propensity to roll over the project into its next phase would have helped to address these risks.

## Institutional/organisational

*Ownership and commitment:* in a closely integrated project, there were a number of factors inherent to MPF that affected progress. MPF exhibited caution from the start, insisting that changes should be gradual. The reasons for the resistance to change, particularly in the early phases of the project, may have included:

- degraded capacity, lack of understanding and fear of change;
- managers reluctant to expose lack of ability, or to allow their "empire" to be threatened;
- lack of clear lines of responsibility and formal project management structure;
- absence of external pressure (before the new aid paradigm brought more focus);
- need for wider institutional reform in MPF.

We would not however, conclude there was lack of commitment. It is worth remembering that this project started before great external pressure for change. Rather, in the first half of the period, 1994–98, the project was highly participative and making (slow) progress towards producing the first state accounts for 25 years.

However, we have to question the ownership from 1999–2002/3. Whilst commitment to reform appeared to strengthen, reflecting the external demand for change, it is not clear that there was full acceptance of the implications of the new accounting model proposed. We postulate (see Accounting models below) that the move to accrual accounting and the emphasis on the management accounting needs of the spending departments, rather than the exercise of control, was a priority of the Swedish model not fully accepted within MPF. Further, the intention to use packaged software may not have been fully accepted.

*Organisational and management capacity:* MPF has highly vertical structure and a lack of resource to tackle cross directorate, strategic, policy and change management issues, weakening their functioning as an organisation[2] and responsiveness to change. The structure had an impact on the degree to which the project could influence the strategic dimension, coordinate policy across the directorates and remove obstacles to achieving outputs.

MPF project management could have been improved. A project board or steering group arrangement had been proposed in 1994 but had not become operational. On a day-to-day basis the project team found a way to resolve cross-cutting issues and some success was achieved with the instigation of technical boards, providing a forum for discussion of technical issues and some coordination across the directorates. However, formal project board and steering group arrangements would have been preferable. We further argue that the project should have been positioned higher up MPF's organisational structure. This was eventually recognised with the creation of a technical unit for the reform of state finance (UTRAFE), a decision to which the project contributed.

*Institution/organisation building:* MPF had low levels of absorptive capacity. It was concern over the demands placed on this capacity, centrally and provincially, which we believe to have been a major reason for the resistance to change. The extensive training programme undertaken over 10 years reflected the need for building human capacity.

We conclude that the project made an important contribution to organisation building in the:

- experience and confidence gained during reform efforts from 1994 onwards (although more evident from 1997 onwards). This was instrumental in assisting MPF articulate its reform strategy and understand what would be involved in implementing major reform.
- opportunity and support given to the development of individuals;
- support given to the training department;
- volume of training provided.

The training component had, arguably, the greatest impact. The volume delivered was significant.
It built human capacity that has been the platform for the implementation of later reforms.
The project helped to create and build the capacity of the training department (thus institutionalising the approach). More negatively the impact of training was reduced by lack of HR strategy and policy and the project was unable to bring about improvements in this area. Significantly performance is still judged as weak, with doubts over capacity to manage the major reform programme underway.

[2] Issues now being addressed within MPF's reform strategy.

The information technology component, without producing complex integrated automation, provided important tools for data accuracy, the streamlining of processes and for the control of budget execution. Constraints were met in bringing in and keeping capable IT resources. An IT strategy document should have been produced and more comprehensive policy and guidance could have been laid down for IT management, for example security and disaster recovery. Nevertheless, this component provided important modernisation and helped establish an IT culture amongst users within MPF.

## Accounting models

The first half of the evaluation period was about making effective the existing accounting arrangements. We conclude that this was the correct approach. It was non-controversial and saw important improvements.

The second period however, was controversial. Under external pressure, MPF had recognised the inevitability of major changes in their FM processes. We conclude that the Swedish model proposed for the State Financial Administration System (SISTAFE 1) was feasible and operable. It was an adaptation of the Portuguese national system and chart of accounts. It included a new accounting framework and the single treasury account (*conta única*), an important reform (now being realised under SISTAFE 2).

However, in our opinion it was a lot for MPF to "swallow". The project was holding up an accrual standard as synonymous with modernisation and consistent with the long-term objective (goal) of the project. No developing country government has yet successfully implemented accrual accounting. Its advantages over reformed cash accounting are realisable only in a relatively sophisticated and performance-oriented environment. In our view, cash accounting is sufficient and does not preclude modernising improvements. An attempted transition to accrual accounting, would have enlarged the scope of the project, diffused the reform and taken the focus off priorities.

What is not clear is whether the intention was to take the opportunity to put an accrual framework in place or to phase in accrual accounting gradually. This is important because the MPF preference was for gradual reform over several years. No doubt a sustained implementation and training programme would have been implemented, something for which the project had demonstrated capacity. However, we believe that there was a failure of communication in the latter stages of the project that contributed to the eventual replacement of the Swedish model and the early termination of the project.

## Coherence and relevance

Therefore, in considering coherence and relevance this too must be looked at in two parts:

- For the first half of the period of review a logical set of components made up a coherent programme that was relevant to the need, if a little narrow in its scope. Today, projects are conceived more holistically, with comprehensive ambitions, including institutional and management issues.
- For the second period, whilst we have concluded the SISTAFE 1 development was well conceived, addressed well recognised needs and was consistent with the long term objective of SFMP, the emphasis on the business needs of the spending departments and, particularly, the emphasis on accrual accounting does not appear to have been fully accepted as relevant to MPF needs. In part, this may be a question of prioritisation, with MPF stressing budget control. But we feel it goes deeper and suggest that the full implications of the philosophy of approach were not shared fully by MPF.

## Sustainability

Of all the donor interventions within MPF it likely that the Sida project has delivered the most lasting achievements. It enabled a working system, strengthened the law and regulations and built human capacity. This has provided a platform for further reform. By definition the termination of the second part of the project and the changes from the SISTAFE 1 to SISTAFE 2, mean that an important element of the project has not been sustained. Nevertheless, SISTAFE 2 has built on SFMP and SISTAFE 1 (although we would express reservations on the sustainability of the bespoke development for SISTAFE 2 and the attention to the "soft" implementation issues.

## Future support areas

Additionally, the report records several potential areas for continued Sida support to MPF:

- integrated human resource management and payroll system;
- pensions system and payments;
- work on HR policies, job descriptions and staff appraisal system;
- a programme of training for SISTAFE;
- continued support to DNCP (via UTRAFE);
- support to debt management;
- organisational development for CPD.

## Lessons learned

Government commitment is a primary critical success factor. By this we do not just mean an acceptance that improvement is necessary. Just as important is ownership of the type of reform (and prioritisation). In the second half of the review period we would suggest that the very close working relationship and trust that existed between MPF and Sida did not preclude a different perception of approach and prioritisation. This reinforces the need for solutions to be specific to the country, reflecting the law, tradition, capacity, processes and informal rules that apply.

In order to achieve success and bring about lasting improvement, a project should fit within ministry of finance strategic and business planning. This should be comprehensive, addressing technical and institutional/organisational issues such as business purpose and function, structure, management, HR policies, training etc. Ideally an IT/IS strategy should further build on this strategy. The government plan should be based on a comprehensive diagnosis of the nature of the problems. A sequenced plan should be developed. Any donor interventions should also have a clear problem analysis and fit with the government strategy and plan. A proliferation of donor interventions should be avoided. In this example:

- the activity from year 1994 was, de-facto, based on the requirements of MPF (albeit not formally articulated as an overarching strategy/plan);
- several other donor interventions do not appear to have left a sustainable output, whereas the Sida project made important advances;
- the later phases of the project attempted to be complementary to the government strategy but at some point the philosophies of approach appear to have diverged.

A ministry of finance needs a management structure and resource to deal with the change issues within reform. The creation of UTRAFE was a development that should have occurred earlier. Projects should have a formal project board. A programme should have a high level steering committee. The SFMP had some success with the technical groups but this should have been more formalised.

It may take the combined pressure of donors to overcome any resistance or delay and move reform up the agenda to ensure that the donors concerns and expectations are addressed. The experience also suggests that a single bilateral donor cannot expect to remain in a central quasi-monopoly role in core areas of public management such as public accounting, particularly under the modern paradigm of donor-coordinated direct budget support. Having said which, it would be unfortunate if a donor were to be precluded from identifying and pursuing initiatives and there is room for opportunistic interventions that address specific issues (as long as they are coordinated and fit within the overall strategy).

Multi-donor interests must be harmonised and coordinated both between the donors and with the government. The disputes that characterised the later phase of this project were not edifying. Donor coordination (and cooperation) in similar future projects would need to be significantly improved. Lack of in-depth technical understanding contributed to the difficulties. We would suggest that donor support should:

- be placed behind a comprehensive government owned PFM reform strategy;
- support the PFM strategy directly (with projects) or indirectly (with funds);
- ensure the quality assurance is set up as early as possible in this process to ensure donors have full understanding of the issues.

Placing undue importance on concepts such as accrual accounting, investing them with powers of solving all the problems of mismanagement should be avoided. There is no panacea: each issue has to be addressed individually in the national context and feasible solutions found.

The advocacy of many of the modernisation approaches (programme and performance budgeting, MTEF, introduction of complex computerised accounting packages – now promoted as standard but for which the record of achievement elsewhere is mixed), needs to take account of capacity. They are not going to be achieved in an environment of limited understanding of simple budgeting, few accountants and a lack of computer literacy.

Incentive issues within a project and within the overall ministry strategy need to be addressed.

## Acronyms and Abbreviations

| | |
|---|---|
| AIDS | Acquired Imunodeficiency Syndrome |
| BOM | Bank of Mozambique |
| CFAA | Country Financial Accountability Assessment |
| COA | Chart of Accounts |
| COFOG | United Nations Common Functions of Government |
| CPD | Centre for Informatics and Data Processing |
| Danida | Danish International Development Cooperation Agency |
| DFID | Department for International Development |
| DNARH | National Directorate for Administration and Human Resources |
| DNCP | National Directorate of Public Accounting |
| DNO | National Directorate of Budget |
| DNPO | National Directorate of Planning and Budget |
| DNT | National Directorate of Treasury |
| DPPF | Provincial Directorates of Planning and Finance |
| EMRS | Expenditure Management Reform Strategy |
| E-SISTAFE | Electronic State Financial Administration System |
| ESV | Swedish National Financial Management Authority |
| EU | European Union |
| FM | Financial Management |
| FMR | Fiscal Management Review |
| FORMFIN | Training Project at Ministry of Finance |
| GAAP | Generally Accepted Accounting Practices |
| GFS | Government Finance Statistics |
| GOM | Government of Mozambique |
| HIPC | Heavily Indebted Poor Country |
| HIV | Human Immunodeficiency Virus |
| HR | Human Resource |
| IFAC | International Federation of Accountants |

| | |
|---|---|
| IFMIS | Integrated Financial Management Information System |
| IGF | Inspectorate General of Finances |
| IMF | International Monetary Fund |
| INTOSAI | International Organisation of Supreme Audit Institutions |
| IS | Information System |
| IT | Information Technology |
| LFA | Logical Framework Approach |
| MOE | Ministry of Education |
| MPF | Ministry of Planning and Finance |
| MTEF | Medium Term Expenditure Framework |
| Norad | Norwegian Agency for Development Cooperation |
| PARPA | Plan of Action for the Reduction of Absolute Poverty |
| PEMR | Public Expenditure Management Review |
| PER | Public Expenditure Review |
| PFM | Public Financial Management |
| PSC | Public Sector Committee |
| RRV | Swedish National Audit Office |
| SEK | Swedish Krona |
| SFMP | State Financial Management Project |
| Sida | Swedish International Development Cooperation Agency |
| SIPU | Swedish Institute for Public Administration |
| SISTAFE | State Financial Administration System |
| SPM | Scandinavian Project Management Consultants |
| TA | Administrative Tribunal |
| TORs | Terms of Reference |
| UPS | Uninterrupted Power Supply |
| USD | United States Dollar |
| UTrAFE | Technical Unit for the Reform of the State Finance |
| WB | World Bank |

# Preface

This report has been produced by three senior international consultants, Mr Ron McGill, Dr Peter Boulding and Mr Tony Bennett, with contributions from António Sosa Cruz from the Ministry of Planning and Finance. The consultants conducted interviews with senior officials of the Swedish International Development Cooperation Agency (in Stockholm and Maputo) and with national directors and staff of the Ministry of Planning and Finance. Crown Agents acknowledge gratefully the assistance of all the individuals (listed in appendix B) who were met by the authors in Stockholm, Maputo and Nampula. Crown Agents remains responsible for all views expressed.

In addition to the interviews the description of the project activities is based on the documentation listed in the references below (and at appendix C), but the report cannot replace the source documents as the definitive authority. Crown Agents has endeavoured to describe the main developments within the project accurately and comprehensively, but does not accept any responsibility for this report to be interpreted as a superior or alternative authority to the source documentation.

# 1. Introduction

## 1.1. This Document

**1.1.1.** This document is an external evaluation report commissioned by the Swedish International Development Cooperation Agency (Sida) of the State Financial Management Project (SFMP), Mozambique. This Sida supported project was located (latterly) within the National Directorate of Public Accounting (DNCP) of the Ministry of Planning and Finance (MPF) and, ran though many phases, from mid 1988 until project closure in December 2003.

**1.1.2.** The terms of reference (TORs) for the evaluation are attached as appendix A, for ease of reference. They require an evaluation for a ten-year period from January 1994. The SFMP project was closely integrated within the MPF and sought to both reform and build capacity in the areas of:

- Budget preparation;
- Budget execution/accounting – aimed at control of expenditure in accordance with budget and reporting thereof.

**1.1.3.** Support components were included for:

- Training – (technical training on the law, accounting, classification, procedure, computer familiarisation); and,
- Computerisation.

## 1.2. Structure of This Document

**1.2.1.** The structure of this report follows closely the standardised format laid down by Sida for evaluation reports.

**1.2.2.** In the next section we describe the evaluation methodology. This is followed by a section setting the project context and history, in which we sketch in the status in 1994 and the activity of the project under the two main headings of budget and accounting. For each heading, we also summarise the activity in the support components of training and computerisation. This sets the scene for the more detailed description of our findings, covering whether objectives were met and the achievements and impact, under the headings of:

- Institutional/Organisational – section 4;
- Project Approach and Management – section 5
- Training and Human Resources – section 6;
- Information Technology/Systems – section 7;
- Accounting Model/Standards – section 8.

# 2. The Evaluation: Methodology

## 2.1. Reason, Scope and Focus

**2.1.1.** Commissioned as an end of project evaluation for a project that that has run for some 15 years, the purpose of this evaluation is to draw conclusions on the approach to the project and its impact. As public financial management (PFM) reform is seen as of particular importance in the context of poverty reduction, budget financing and the donors harmonised approach to these issues, the report is required to highlight lessons for the future, both for Sida and the MPF, and for other donors and countries.

**2.1.2.** The TORs cover the normal requirements of efficiency and effectiveness. The evaluation was to further examine the project relevance in addressing weaknesses and its coherence to the reform needs. Emphasis is placed on the need to consider the MPF ownership of the reforms, the integration and managerial insertion to the MPF and any trade-off between this ownership and results.

**2.1.3.** There is requirement to examine the technicalities of the State Financial Administration System accounting model adopted (referred to throughout as SISTAFE 1) and, as a significant addition, compare the proposals of the project with those of the current model (hereinafter called SISTAFE 2).

## 2.2. Method Used

**2.2.1.** A team of three international consultants conducted the evaluation during the period 10 November to 19 December, 2003. Visits were made to the headquarters of Sida in Stockholm (10–14 November) and to Mozambique from 24 November to 19 December, 2003 inclusive. A fourth member, nominated by MPF, joined the team in Maputo.

**2.2.2.** A structured approach to recording information was assisted by the preparation of a research template, used to record interviews and reviews of documentation. This served as both a record and a means of mapping the material against the TORs and highlighting points of significance. The completed research templates were shared by team members. Information was obtained for the evaluation from:

(i) extensive semi-structured interviews in accord with the TORs with staff of MPF, Sida, project team members and external donor/embassy staff and consultants (see appendix B for a list of persons interviewed).

(ii) a study of relevant documentation. This included plans of operation, progress reports, minutes of meetings, papers and reviews, including major PFM reviews such as the Country Financial Accountability Assessment (CFAA), Public Expenditure Management Review (PEMR) and Fiscal Management Review (see appendix C for a list of documentation);

**2.2.3.** During the visit to Stockholm a series of interviews were conducted with Sida staff who had been involved in project oversight over several years, and with representatives of the organisations responsible as prime consulting contractors, i.e.: SPM (the first phase – although strictly, outside the review period of the TORs), the Swedish National Audit Office (RRV[3]), the Swedish National Financial

[3] The single acronym RRV is used in this report for the Swedish National Audit Office, although the acronym in use changed during the life of the project. Owing to Swedish government reorganisation the Swedish National Audit Office (RRV) was divided into two separate organisations: RRV (now called Riksrevisionen) and the new Swedish National Financial Management Authority (ESV), responsible for developing the financial management of the state.

Management Authority (ESV) and the Swedish Institute for Public Administration (SIPU). The complete file record of Sida was also trawled for relevant documents.

**2.2.4.** In Mozambique interviews were conducted with senior members of the MPF, including the Permanent Secretary, national directors and senior staff of each of the MPF directorates and the Technical Unit for the Reform of the State Finance (UTRAFE). We were able to meet with the departing members of the project team, who provided their perspective and furnished documents from the project records. Meetings were also held with representatives from several of the bilateral and multilateral donors with an interest in PFM. The views were obtained of the ministry of education (MoE), selected as representative of the spending departments. A two-day visit was made to Nampula, to the provincial offices of MPF, in order to obtain a provincial perspective.

**2.2.5.** We would like to take the opportunity of thanking all those who gave of their time with patience and courtesy. In particular we should like to thank:

(i) Mr Gamito, National Director of DNCP who contributed his time and ensured administrative arrangements were made;

(ii) Within Sida: Anton Johnson in Maputo and Hallgerd Dryssen (Head of Department for Democracy and Social Development) in Stockholm.

## 2.3. Limitations to the Study

**2.3.1.** Excluded is that part of the project dealing with audit (Administrative Tribunal – TA and Inspectorate General of Finances – IGF, supported by RRV). Otherwise, the TORs are comprehensive and have been followed closely.

**2.3.2.** Constraints faced in fulfilling the TORs however, include:

(i) period to be evaluated: the duration of the project (10 years to be evaluated, with a prior 5 years having had a significant influence on what followed). This is a long period and covers several phases, several plans of operation and three prime consulting contractors. No previous external evaluations had taken place. Many participants in early phases, both MPF staff and project team members were not available (although several interviewees did provide valuable insight to the early project and provided continuity to the present day);

(ii) records: significant gaps in the records in Stockholm, particularly financial data. In the main missing documents and partial financial information were furnished from the project office records in Maputo. Missing documentation is highlighted in the text;

(iii) language: this was a constraint in a number of ways.

- the evaluators did not speak Portuguese and the majority of meetings in Mozambique had to be conducted through an interpreter;
- there were three languages used in documentation and frequently documents were only available in Portuguese or Swedish. Whilst a volume of documentation was translated (including legislation), there was a limit to what could be achieved both in time and cost;
- the three way language issue also had another impact in that the sense of many of the terms proved difficult to determine or were used inconsistently, particularly technical accountings terms.
  We speculate that this difficulty may have afflicted the project during its life, contributing to there being an incomplete understanding amongst participants;

(iv) MPF counterpart: late appointment of the MPF counterpart, causing some lost time during the in-country study (an interpreter/translator had to be identified at short notice to substitute);

(v) SISTAFE: two lines of the TORs required the comparison of the proposals of the project with the current SISTAFE 2 model. Whilst Dr Jesson gave of his time we did not get access to the project technical staff or the IMF coordinator. Documentation obtained was not comprehensive. In any event comparisons would have required at least a partial review of the second project, not feasible given the complexities and time limits. Whilst we believe that we have achieved a comparison of the accounting models (see section 8 and appendix F) in accordance with the TORs, what has not been undertaken is a comprehensive review of SISTAFE 2.

# 3. Project Context

## 3.1. Development Context

**3.1.1.** It is important in any evaluation to set the context, in order that the inevitable hindsight exercised in the evaluation can be balanced by the perspective of the time the actions occurred. In this project this perspective is of particular importance. This is partly because of the time span. The project has its origin in 1987/8 and the period of review is 10 years (1994–2003), encompassing several phases.

**3.1.2.** Almost more important than the elapsed time however, is the change in development thinking. At the time this project started the focus of donors' attention was structural adjustment: financial transfers were described as balance of payments support in exchange for supply side structural reforms, such as the introduction of liberalised, price based, foreign exchange systems. This was a process that was slower to get underway in Mozambique, partly owing to the security situation and because of weaknesses in the financial sector.

**3.1.3.** Comprehensive reform of public financial management was not a mainstream area of donor attention[4]. Fundamental parts of government machinery, such as financial management and audit were by-passed or ignored as donors concentrated on more directly accountable projects. This project worked away quietly for several years, largely unnoticed, addressing some fundamental capacity issues with an innate philosophy of partnership, ownership and long-term commitment (defined from the outset as 10–15 years). Other donors began to instigate projects that addressed different aspects of financial management. Initially, coordination across these projects was limited.

**3.1.4.** However, the context of the project changed with the new-paradigm of aid[5]. With Mozambique being a particular focus, donors were seeking to make large financial transfers to meet budget deficits and fund sector programmes in the context of poverty reduction. Thus donors began to place increasing emphasis on improving the management of public finances.

**3.1.5.** As the focus switched to government machinery there was a heightened awareness of fiduciary issues. Studies related to the HIPC initiative raised concerns over the weaknesses in financial management in many indebted and aid dependent countries. Efforts were concentrated on assessment of

[4] It was not until the mid 1990's that a limited number of ambitious, integrated financial management system (IFMIS) projects were implemented, mainly in eastern Europe and countries formerly part of the Soviet Union.

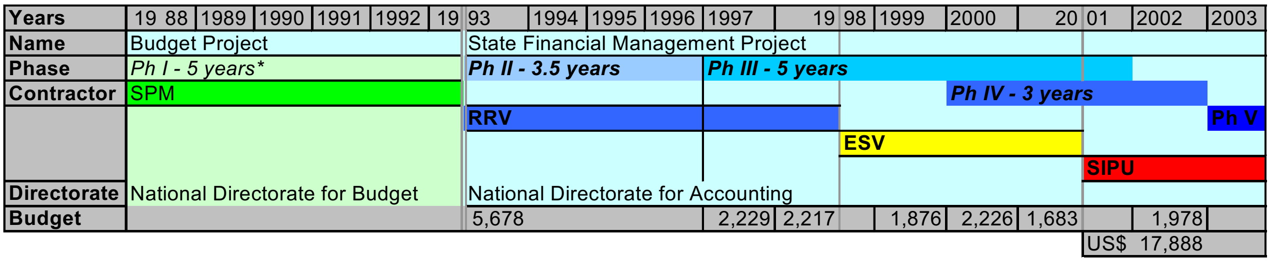
[5] Which includes that programme support using pooled funds, harmonised reporting, disbursed via government machinery and monitored via indicators and other methods (rather than only financial accountability), will help overcome the previous negative aspects of development co-operation.

capacity, risk and reform needs. In the Mozambique context from mid 1996, a series of studies highlighted PFM weaknesses, increasing donors' dissatisfaction and impatience with the pace of reform. It is in this context that the project came to wider attention but events were set in train that led eventually, if not inevitably, to its termination.

## 3.2. Project History

**3.2.1.** The TORs give a complete, if abridged, history. This is further summarised in a table expanding the chronology at appendix D. Figure 1 illustrates in simplified form the relationship between the phases of the project. We have taken these as being when a new, normally 3 year[6] plan of operation started (e.g. January 2000 to December 2002, within the plan for which a review of the previous period was contained). Figure 1 also shows the prime-consulting contractor responsible and the budget (converted to US Dollar at an approximate rate for the year).

**Figure 1: SFMP phases, contractors and budget[7] (US Dollar ,000)**




**3.2.2.** The phases are open to interpretation. The SPM contract (shown as phase 1 in Figure 1), was extended twice. The first agreement with the RRV was for 2 years but was extended three times. Support to the project proposals of October 1996 were envisaged for a period from June 1997 to December 2001 (4.5 years), the first phase of which was to December 1999. In late 1998 this was extended to the end of 2002.

**3.2.3.** In addition to the phases the project also falls into two distinct parts, within which there were different issues and measures of success:

(i) the work on the system existing at the time the project started and up to the passing of the new frame law and the presentation of the first state accounts;

(ii) development of the new accounting model and integrated financial management system (SISTAFE 1).

*Emphasis on budget and budget execution*

**3.2.4.** Before continuing with the project history, for a better understanding of this report's contents, it is worth putting in perspective what this project, and to a degree the current SISTAFE 2 reform, is all about. Although the process of disbursement of funds involves central institutions (MPF, BoM), detailed control of expenditure is done at the provincial level and at the central line ministries. Only the aggregate accounts reach DNCP. This project has therefore, worked in this decentralised context. This means that the emphasis has been about improving reporting of expenditure (budget execution) and achieving control within budget limits. It has not been about control in terms of expenditure management, good practice, accountability and achievement of value for money. The support to internal and external audit functions of IGF and the TA are aimed more at this latter set of issues but that component is outside the terms of reference of this study.

[6] In practice the periods varied, partly reflecting activity on the project, necessitating new plans. The phases also were adjusted for the change in Sida's financial year from July to June to a calendar year.

[7] * = originally from Jul 98 to Feb 90 and extended twice to Jun 93 but shown as one phase for ease of presentation.

*Budget*

**3.2.5.** Initially the project was called the Budget Project, located within the National Directorate of Budget (DNO). The limited experience and analytical ability of the staff was seen as a constraint on improving the quality of the budget programming work. Two advisers were appointed to the budget area (until December 1997), to develop the structure and legal disposition of the state budget. The work culminated with the approval of the Budget Frame Act 1997 (law no. 15/97), and the Budget Classifiers Decree (decree 25/97). After 1998 work in the budget area lapsed in the absence of long-term technical assistance, owing to difficulties experienced by RRV/ESV in identifying suitable consultants. Subsequently, in discussion with MPF and DFID, it was agreed that support to the budget department would no longer be part of SFMP[8]).

**3.2.6.** Training was emphasised with the most significant support being delivered during the period 1997/98 with the implementation of training for the introduction of the new law and decree. This involved staff from MPF, line ministries and autonomous organisations at central and provincial level, with approximately 900 participants.

**3.2.7.** Contribution to computerisation in the budget area was limited. Spreadsheets were used for compilation of the state budget. The project assisted with an IT network installed in the main building of MPF. After the merger of planning and budget and the move to planning premises, the project's local funds supported the installation of a new network.

*Accounting*

**3.2.8.** At the start of the review period the project widened its scope to include the accounting function and was renamed as the SFMP. Two advisers were appointed. With the reorganisation of the MPF the project began to work with DNCP (as well as DNPO and the National Directorate of Administration and Human Resources -DNARH). Until 1998 all efforts were concentrated on the operation of the existing public accounting system, which at the start was essentially manual (and prone to error), lacked documentation, was based on antiquated law and failed to report results of budget execution and enable the closing of state accounts.

**3.2.9.** With the approval of the new law and decree, effort was put into the state general accounts from the 1998 budget execution. These were submitted to the TA and presented to parliament. Accounts for subsequent years have followed. The project also assisted the production of the quarterly budget execution report from the year 2000, as required by the new law.

**3.2.10.** From 1994 training covered general inputs in the areas of general accounting, public accounting, treasury, reconciliation and budget execution. With the implementation of the new classifiers in 1997 a major effort was made involving some 600 participants. Further courses covered processing of salaries. There were discernable improvements in quality of accounting but recognition that there was still a long way to go in equipping staff with the necessary skills, particularly at provincial level.

**3.2.11.** At the start of the review period three IT networks had been installed and applications developed for budget execution control (book 17), as well as for checking payments made by treasury. Work in the area of pensions had been initiated. Work extended through 1998 to include (the DNCP based project extending activity into the treasury function, now a separate directorate – DNT):

- payment of budget expenditure (book 17);

[8] Although not a focus of this evaluation it has been suggested that the DFID project did not meet the need of the budget directorate. In any event it is understood that, with hindsight Sida, see the SFMP project withdrawal from DNPO as an unfortunate decision and one that had a negative effect on the reform work within MPF (see also paragraph 4.4.2 on the difficulties of coordinated business functions within the budget directorate).

- treasury operations (book 17);
- treasury (book 15);
- payroll system;
- pension payments system.

*New public accounting model*

**3.2.12.** The passing of the budget frame act and the new budget classifiers was an achievement. It marked a step-change for the project. In May 1997 the government launched an Expenditure Management Reform Strategy (EMRS), aimed at improving management of public debt, guaranteeing efficiency and effectiveness of public expenditure, whilst meeting policy objectives and ensuring long-term fiscal stability. The reform programme was more extensive than the SFMP, requiring effort to ensure the project plans were consistent with the overall programme and that SFMP was an effective tool for realisation, principally in the area of public accounting.

**3.2.13.** The new programme required close cooperation between directorates and coordination at a senior level and a new coordination group of national directors was proposed, with the deputy minister chairing bi-annual meetings. In March 2001 the technical unit for the reform of the state finance administration (UTRAFE), was formed (with Sida positive towards and active in its creation).

**3.2.14.** The projects main tasks thereafter were in developing the new public accounting model (SISTAFE[9]), extending the scope into coordination with the line ministries. Total implementation of the new model was envisaged to take 8–10 years! Effort went into developing the legal instruments.

**3.2.15.** In addition to training related to the new model, perceptions of continued weaknesses in planning, management capacity and the educational levels of a major portion of MPF staff, re-emphasised the importance of the training component. Senior management was to become involved in the training programme and management training was added to the plan of operation.

**3.2.16.** The plan also recognised a lack of strategic consideration and standardisation in computer investments, and lack of provision for support and maintenance as well as the need for continued support to consolidate existing systems (rather than the need to develop new applications).

*Final phase and termination*

**3.2.17.** The project continued to work on the new accounting model. An amendment to budget classification was made in May 2001 (COFOG functional classification) and the SISTAFE Law 9/2002 was approved by parliament in November 2001 and passed February 2002, substituting for the 1997 Law.

**3.2.18.** New procedures were introduced in January 2002 to bring off-budget revenues into accounts. A presentation of the SISTAFE 1 conceptual framework was made in April/May 2002. Decree 17/2002 for the new budget structure was passed in June 2002 but not implemented. A draft invitation to tender for an IT accounting package was finalised in September 2002 but not issued. SISTAFE 1 training was initiated.

**3.2.19.** In March 2002 UTRAFE was underpinned with a management committee. The IMF resident representative was made responsible for donor coordination and an IMF coordinator was attached to UTRAFE. New plans and conceptual descriptions were issued by UTRAFE between April and October 2002. Responsibility for development of PFM reform was added to the UTRAFE coordinating role in July 2002. In October 2002 Sida and the EU were requested to phase out their support in core

[9] The new state finance administration system.

areas of PFM and a memorandum of understanding between MPF and donors set up a common fund in November 2002.

**3.2.20.** The project closed 31 December 2003.

# 4. Institutional/Organisational Issues

## 4.1. This Section

**4.1.1.** Best practice in PFM reform projects identifies the need for government commitment, managerial support, coordination, user involvement, organisational capacity and technical skills and management of change. This project was well integrated within the MPF and reliant on MPF for progress. If there is any criticism of the project it must also apply to MPF and the degree to which it performed its role. In this section we explore how this project addressed the best practice issues and the MPF contribution in terms of commitment, management and ownership. There is some overlap with the issues within this section and that following (section 5, Project Approach and Management).

## 4.2. Government Commitment

**4.2.1.** Commitment is a primary critical success factor. It has been suggested that the government/ MPF lacked commitment and that this was reflected in the slow pace of reform. Further, there are several references in papers to corruption in this context, and to its influence in the rejection of reform proposals (for example the use of double-entry accounting). It can be anticipated that opportunities for fraud existed and that there would be those that benefited from existing systemic weaknesses. However, we also believe it is necessary to set this into perspective. Resistance appears to have been of more significance in the early phases of the project, when it is feasible that the causal factors would have been:

- degraded capacity, lack of understanding and fear of change;
- managers reluctant to expose lack of ability, ignorance or to allow their "empire" to be threatened;
- lack of clear lines of responsibility and formal project management structure;
- absence of external pressure (before the new aid paradigm brought more focus);
- need for wider institutional reform in the MPF.

**4.2.2.** Further, MPF saw the work in the early stages, as reinstating the existing system rather than a wider reform (involving re-orientation, restructuring and business process re-engineering). Certainly, MPF exhibited caution from the start: determining that changes should be gradual and incremental (not radical), attaching importance to testing that staff were assimilating change and helping them to do so through an emphasis on training. Later this caution was more formally articulated in the reform strategy paper (EMRS).

**4.2.3.** Contrary to the idea of resistance to the project, the evaluation interviews showed widespread support from key senior staff and from those for whom the training programme had provided opportunity, through enhanced career development and promotion. It is not possible to gauge the degree to which that was always the case.

**4.2.4.** We revert to the question of commitment and ownership at several points and in the conclusions because there are questions about complete ownership of the SISTAFE 1 model.

## 4.3. Management

**4.3.1.** As discussed at section 3.1, when this project was initiated in 1988 there was limited experience of PFM reform to draw upon. Today, experience suggests that attempting to tackle a technical reform of part of the PFM system (such as budget preparation and execution), might be regarded as too narrow. Projects are now conceived more holistically, with comprehensive ambitions covering a wider scope, including institutional and management issues.

**4.3.2.** Although after 1993 the scope broadened (as it became the SFMP), the project remained set within a single directorate[10]. It is suggested that this was a missed opportunity. The project had a high level or over-arching goal but found it difficult to address cross-directorate issues from within a single directorate. This reflected to some degree the lack of a high-level management structure within the ministry, where change management issues fell, unrealistically upon ministers. The reforms needed to have a strategic dimension and to be coordinated across a number of directorates (budget, accounting, [inspection] and human resources in particular[11]).

**4.3.3.** Some success in integration and coordination was achieved with the creation of the technical boards[12] but this arrangement did not constitute a formal project board nor did the technical boards form part of the organisational structure of MPF, with line management authority. The project had proposed board or steering group arrangements in 1994 but this had not become operational. Again in the plan of operation for 2000 03 a project steering group was proposed. It is interesting to compare this with the 2003 05 plan of operation, which describes the SISTAFE project management arrangements with advisory committee, executive and technical committees, dedicated project entity in UTRAFE and 11 sub-projects, a formal structure far closer to the classic project management structure. This shows a management that better understands and accepts what is involved.

**4.3.4.** The ambiguity in structure may not have been helped by the fact that the prime-consulting contractor had its own project management structure (more correctly a contract management structure) and Sida had a periodic steering role but the project had no formal project management interface with the ministry structure. This is not to say that on a day-to-day basis the project team did not interface and work effectively with counterparts and, de-facto, found a way to resolve cross-cutting issues but we do suggest that the clear ownership of the project should have been reflected in its structure. Had this been done we suggest that decisions, coordination and management of change would have been more focused.

## 4.4. Organisational Capacity

**4.4.1.** We believe that the above analysis is supported by anecdotal evidence of organisational dysfunction at the high level within MPF. The structure was, and to a large degree remains, highly vertical, with functional "silos" (and a silo mentality prevalent). The lack of resources to tackle high-level, cross directorate strategic, policy and change management issues has left the ministers with too much to do in bringing the ministry together as a fully functioning organisation[13] and weakened its responsiveness to change.

[10] The National Directorate of Budgeting, until 1997 when the National Directorate of Public Accounting was formed and the project was re-attached there.

[11] As well as finance staff in spending departments and provincial finance structures outside the central MPF, and, indeed, beyond MPF itself.

[12] For budget, accounting (fortnightly) and training (monthly), chaired by the respective national directors.

[13] Some of the issues here fall beyond the scope of MPF to tackle, requiring wider public sector reform, which is still at an early stage.

**4.4.2.** This is something of which the senior management are aware and trying to address through strategic planning; viz., the current functional analysis (which is at the diagnostic stage)[14]. This will look, for example, to clarify the relationship between the studies office (*cabinet estude* – macro-economic), planning (possibly still emphasizing command economy type targets), budget preparation (one year) and MTEF (3 year horizon), activity. This has been described as a puzzle, not fully put together since the joining of two separate ministries.

**4.4.3.** We can only speculate that this situation pertained to a greater degree in the past and would have had a bearing on the degree to which the project could influence the strategic dimension, work with coordinated policy across the directorates and remove obstacles to it achieving its outputs and purpose. This was exacerbated by the project being situated narrowly and at too low a level organisationally. Having said which, we acknowledge above that the instigation of the technical boards or groups provided the forum for discussion of complex technical issues and some coordination of strategy across the directorates.

**4.4.4.** The opportunity to reposition the project higher up the MPF's organisational structure appears to have been missed on a number of occasions[15], although the project did eventually contribute to the thinking behind the formation of UTRAFE[16]. A unit such as UTRAFE, centrally placed and close to the ministerial level, would have been a better location for the project sooner in its life-cycle.

**4.4.5.** The ministry had extremely low levels of absorptive capacity over the first few years of the project's life and well into this review period. This was, in part, a legacy of the rapid colonial withdrawal and civil war. We understand that one of the main reasons why the SPM phase of the project was terminated was because of the demands the recommended solutions would be likely to place on capacity, centrally and provincially. The extensive training programme undertaken over the 10 years reflects the need for building human capacity.

**4.4.6.** There was a relatively high degree of user involvement through technical committees and participation in training schemes across the public administration. Training involved participants from the MPF, other line ministries and provincial entities. The project has directly assisted in the development of several highly capable members of staff who took good advantage of the training.

# 5. Project Approach and Management

## 5.1. This Section

**5.1.1.** Even simple projects benefit from effective project management techniques used throughout the project lifecycle. Whether the ubiquitous logical framework approach (LFA) is used or not, success is more likely to be achieved from a methodology that ensures adequate problem analysis, clarity of purpose, identification of risks and measures for monitoring and correction. A distinction needs to be made between the team leader's day-to-day management, the prime contractor role performed at vari-

[14] The team conducting the functional analysis have had to comb a volume of documents to identify the current mission and strategic plan for the ministry – i.e., it was not articulated in any readily accessible manner.

[15] Such as the different review points corresponding to phases and sometimes involving change of managing contractor. There were also some key technical advances, that provided opportunities, such as: the passing of the 1997 framework law, the publication of the accounts in 1998 and perhaps the introduction of quarterly budget execution reports in 2000.

[16] Sida being positive towards and actively involved in the creation of UTRATFE – as a coordinating unit, not as a project implementation unit – and the development of the donor pool funding approach.

ous times by RRV, ESV and SIPU and the planning and monitoring arrangements, in which Sida play a key role (although see section on Ownership – paragraph 5.7 below and Government Commitment and Management, paragraphs 4.2 and 4.3 above). In this section we consider the project design, purpose etc., looking at it from the Sida perspective in terms of philosophy of approach (generally and in relation to this project) and the management arrangements that applied.

## 5.2. Philosophy

**5.2.1.** The approach to this project reflected Sida's philosophy of partnership, ownership and long-term commitment. Whilst this is integral to the current consensus on aid effectiveness, with Sida we suggest it is more innate[17]. The project made a virtue of proceeding in a shared and consultative manner, without Sida imposition and with the project team and activities well integrated to the ministry (except, perhaps, for the final stages). In certain activities, for example the training component, the project team member was so well integrated that the activity is indistinguishable from that of the ministry. The long-term planning horizon of the project was 10–15 years, reflecting the idea that genuine capacity building programmes take time to implement.

**5.2.2.** Whilst these attributes are admirable, such an approach contains risks in that it could:

- be used as an excuse for not setting short to medium term targets, and challenging time based outputs;
- send a message, to all parties, encouraging inaction or drift.

## 5.3. Project Planning

**5.3.1.** We are of the view that the plans of operation, particularly for the early phases, are less than effective as plans. We explore our reasons for saying this in the following paragraphs.

**5.3.2.** The original (1988) long-term objective (sic) was given as:

- to improve the budgetary process in order to offer opportunity for political allocation of resources; and,
- to build up capacity for management control, including evaluation of effects of activities covered by the state budget.

**5.3.3.** This is far-reaching and was described in the plan as "an open ended indication of direction"! It is perhaps better described as a "goal". The "purpose" of a project should be more precisely defined. Linked to the 1988 "objective" are what are described as "prerequisites":

- a budget process that is closely tied to democratic institutions – as well as "result based";
- a state budget format that is apt for decision making;
- a mechanism for statutory auditing.

**5.3.4.** These do not seem to be prerequisites[18] so much as an expanded statement of goal, or, a mix of goal, output (product), and even outcome.

**5.3.5.** Confusingly, in the 1995/96 plan of operation[19] the long term "objective" was subtly redefined as:

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[17] Other donors use similar language but, perhaps, more rhetorically.
[18] Something required as a prior condition.
[19] Preliminary version dated 31March 1995.

- to improve the implementation process of the state budget in order to secure a more adequate allocation of resources; and,
- establish and develop the management monitoring capacity, including the assessment of the impact of the activities financed by the state budget.

**5.3.6.** To criticise this might appear to be semantical quibbling but it does seem symptomatic of:

(i) imprecise use of planning terms, as illustrated in Table 1:

**Table 1: Comparison of project planning terminology[20]**

| Plan of operation terminology | Generic terminology |
|---|---|
| long-term objective | goal |
| ? | purpose |
| objectives | outputs or products |
| activities | outputs |
| ? | activities |
| outputs, or outcomes[21] | indicators |

(ii) plans without demanding, time based outputs – i.e. not planning for results.

**5.3.7.** It seems to have been deliberate that the 1994 plan should be loosely defined, on the basis that a process approach had been adopted and in order to let RRV ease themselves into the project (see paragraph 5.4.1). However:

(i) a process approach does not mean that no or limited design takes place. It is used more because of uncertainty about interventions (activities and resources) needed to achieve purpose, not uncertainty about purpose. In any event the first stage of any project (including process approach projects) should be planned in detail;

(ii) the lack of clarity in use of terms, the repeat of outputs and activities in years 1 and 2 and the one-to-one relationship between output and activity, make for less than rigorous planning and impaired monitoring and evaluation.

**5.3.8.** The later plans of operation are progressively more precisely defined, in terms of time and results. However, although the logical framework approach was introduced to the Sida project planning arrangements (from 1995), there is no evidence of the logframe being used as the principal planning and monitoring tool, nor of a proper use of the logframe matrix. There are those that argue that such a planning tool should not be imposed on recipients, as that would be non-participatory and that using it requires specialist skills and high-level linguistic ability. Nevertheless, whatever tool is used, a robust project plan is crucial.

## 5.4. Twinning

**5.4.1.** This project used the "twinning" arrangement favoured by Sida, whereby the organisation in the developing country is paired with its sister organisation in Sweden[22]. This institutional cooperation allows the parties to work together to strengthen capacity in the recipient organisation. It is not intend-

[20] We acknowledge that there could be difficulties of translation within this comparison.
[21] Where the various plans set indicators at all they appear to be more like outputs or outcomes.
[22] Or another developed country.

ed within this report, to examine generically the benefits and risks to this approach[23] but to highlight issues arising from this project. It is our understanding that RRV refused originally (1988) to be involved as prime contractor, citing lack of capacity. However, in 1993 they appear to have been prevailed upon to accept the responsibility. In exchange for which, expectations for the project were kept low, at least for the first 18 months, to allow them to feel their way into the project. This partially explains the vagueness and limited activity/output in the 1993 plan of operation and, indeed, the inception report (January 1994).

**5.4.2.** It is questioned whether RRV/ESV involvement has been entirely successful. Sida have a historic commitment to Mozambique and have invested in language capability. The incentives of RRV/ESV are different and they do not necessarily share this commitment, given that there is an inherent conflict with their prime purpose. We would suggest there is a capacity issue related to project management and, possibly, a lack of understanding of organisational/institutional development and change management issues in a developing country environment[24]. There were problems with filling posts (a long-term budget post remained unfilled for several years) and evidence that back-stopping and short term inputs were not being used (or at least falling short of the activity budgeted). Further, they possibly lacked the entrepreneurial drive necessary to push the project forward and keep it on target.

**5.4.3.** It has to be said that it is not entirely clear whether this is down to them not performing or not being allowed to perform, by MPF. They proposed detailed changes to the project management control system[25], which it is understood, were not implemented. This was clearly an attempt to exercise more control but whether control over performance and outputs overall or over the resident team, it is not clear. But SIPU's short involvement seems to have seen improvements in commitment and efficiency of administration.

**5.4.4.** These issues were possibly recognised in ESV's decision in 1998, to withdraw as prime contractor[26], where they were concerned that the reform effort internal to MPF needed to be improved if the project was not to be "*slow, inefficient and ineffective*". However, they appear to have been prevailed upon to continue in a backstopping role and as a resource centre for short-term technical expertise. It is in this support role that their involvement offered a distinct competitive advantage, providing: advice to the in-country team (and latterly to SIPU), expertise in the highly technical field of public finance modernisation, and delivering a series of quality outputs[27] from short-term consultants. Even here however, there was an inability, as might be expected, to field experts with the requisite language skills. This led to the short-term experts working through the resident team, rather than in a direct interface with the ministry.

**5.4.5.** Perhaps the arrangements that finally emerged, of having a private sector contractor (SIPU) supported by the relevant Swedish institution (ESV), offered a better combination of effective contract management and institutional twinning.

[23] See Capacity Development – Sida Working Paper Nos. 10 and 12.

[24] This comment may be unfair in that we argue that the project environment (described in section 4), was not conducive to the addressing of organisational/institutional and change issues.

[25] The Project Management Control System of the State Financial Management Project in Mozambique, a report submitted to Sida in connection with the plan of operation for the years 1997–2001, Magnus Bergström and Erik Anders Ejdemark, 23 August 1996 (revised and updated 6 December 1996).

[26] See the internal evaluation report of October 1999, Walter Slunge and Fredrik Lennartsson, which sites difficulty of recruiting long-term advisers and lack of comparative advantage in the accounting model adopted for Mozambique, as well as language difficulties.

[27] Examples of short term studies: • identification of off-budget items and mechanisms for integration in the state budget; • result based budgeting; • manual of procedures for budgeting • budgeting for autonomous institutions and municipalities;

## 5.5. Technical Capacity within Sida

**5.5.1.** Like many donors Sida has limited in-house technical expertise in PFM. They therefore, lacked the capacity to monitor the project and have a basis for decisions, many of some criticality, given the highly complex strategic and technical issues the project faced from time to time. To overcome this the oversight role was outsourced to a single consultant over the best part of the life of the project. This provided the benefit of continuity from an individual that was credible and trusted in performing the role.

**5.5.2.** However, without wishing in any way to criticise this individual, we would suggest that the project monitoring became over reliant on one person allowing for the possibility of too close an involvement, extending into providing advisory inputs. We suggest that the role should be one of quality assurance advice to Sida only, distanced from delivery. Best practice would further suggest the duration of such an input should be restricted (3 to 4 years), unfortunately sacrificing continuity (also see the Incentive Structure, paragraph 5.6 below).

## 5.6. Incentive Structure

**5.6.1.** The set-up described in the previous paragraphs contains several potential conflicts of interest. Whilst in theory the plans of operation for the various phases were MPF documents, in practice it would appear that:

- the project team defined the plan;
- the government formally requested assistance (in accord with the plan); and,
- Sida approved.

**5.6.2.** Despite being subject to annual and end of phase review, this could be described as a "cosy", self-perpetuating arrangement, particularly when there were no external reviews at any point in the 15 years. We understand that as a result of annual work plans not being completed in 1995/96, Sida set MPF conditions for continuation. These were described as a series of short-term targets in the form of reports and presentation of information but we have been unable to identify those conditions and whether they were met[28]. Indeed, the minutes of the annual review meetings are couched in diplomatic terms such that it is difficult to discern whether there was any real dissatisfaction with progress and any pressure applied.

**5.6.3.** Further negative incentives may have existed within the reluctance of MPF to move too far, too fast and, within the payment for attendance rather than by results for the MPF technical group members. The previously mentioned RRV report on project management control[25], also suggests a need for a more results based arrangement.

**5.6.4.** If subject to adequate scrutiny, the inherent risks in the Sida philosophy and in these conflicts, can be avoided. In this project we would suggest, the risks were not sufficiently offset by rigorous planning, target setting, monitoring and pressure for results (see paragraph 5.3, Project Planning).

[28] The April 1995 annual consultation notes record "great satisfaction" and "a high degree of accomplishment of the objectives…a significant improvement as compared to last years". The 1996 report does condition continuation on approval of the new law and found that results achieved with support to DNARH "do not correspond to expectations". The October 1997 minutes record in a business like way "positive results". There is not a set of conditions in any of the three agreed minutes.

## 5.7. Ownership

**5.7.1.** However within the Sida philosophy[29] resides a paradox:

- a possible contradiction between results and close partnership;
- a conflict between the donors desire to set a demanding reform plan (and press for its timely implementation) and a desire to subsume the distinct donor driven project within the recipient organisation's plans;
- ownership leading to a blurring of project accountability.

**5.7.2.** In this context to what extent is the project imposed? To what extent is any failure that of the project (i.e. the project team and of the donor), rather than the recipient organisation?

**5.7.3.** This issue is recognised in the TORs, which call for comment on the trade-off between instrumentality and ownership. Certainly the project fitted closely within the development objectives of the ministry and went at a pace that the ministry found acceptable. Judged as a reform project however, whilst having some success this does seem to be at a slow pace of achievement, at least too slow for the group of donors in the project's latter stage (this is discussed further in paragraph 9.5). As a capacity building partnership, characterised by long-term commitment, there is a different measure of success.

**5.7.4.** But with the best will in the world, donor and partner government have different outlooks and perhaps a single donor, particularly one trying to work in close partnership, cannot apply sufficient external pressure to drive the project forward and overcome the range of obstacles and change issues.

## 5.8. Conclusions

**5.8.1.** We suggest the project design did not fully address the risks inherent within Sida's aid philosophy, including the conflict between results and close partnership and the risks from the use of the twinning concept. It is possible that a single donor would be unable to exert the pressure necessary to achieve real results. Although the plans improved from phase to phase, design should include a more rigorous institutional assessment and the plans have clearer definition of purpose, outputs, activities and verifiable indicators. This would allow for more focused quality assurance and evaluation.

**5.8.2.** Although this is said with the benefit of hindsight, best practice would now suggest the need for a wider, more holistic institutional reform. This rather narrow technical and capacity building project could not address some of the high-level and cross-cutting issues that proved to be obstacles.
The project should ideally have fitted within a larger strategic reform plan[30].

# 6. Training and Human Resources

## 6.1. This Section

**6.1.1.** This section looks at the support component of training in terms of the status at the start of the review period, the outputs and achievements.

[29] … and now more widely within the new paradigm of aid.

[30] This is not to say that progress needs to be made on all fronts at the same time. In fact in the later phases it was part of the newly launched EMRS but it is not clear whether that had sufficiently progressed to be significant.

## 6.2. Starting Point

**6.2.1.** Training activity had lapsed within MPF in the early 1980's and no records were available. A study conducted during the projects first phase had found "uncertainty about procedures… and irregularity". Government administration had a large number of finance officials and bookkeepers, a good portion of them competent but very few trained and qualified accountants with the expertise to assess and devise policy and systems.

**6.2.2.** Prior to the review period a training adviser was brought in (early 1992) to assist with developing an in-house training programme and to provide some structure to the training effort. A separate budget was allocated (the FORMFIN project) and placed under the DNARH. A training section was created in 1993 (its status changed to department in 1997). Counterparts were identified making four staff, rising to a total of 10. However, when RRV had assumed the role of prime consulting contractor (July 1993) a need for a more systematic approach had been identified and the training budget was integrated to the renamed project.

**6.2.3.** The training component was seen as a support to the budget and accounting activity, although the development of skills, knowledge and attitudes was recognised as requiring a substantial amount of training. This lack of human capacity contributed to the decision to work with the existing mechanistic budget execution system and concentrate on basic training for finance staff to overcome lack of understanding, ability or willingness to use the system. This training need was to cover basic office skills, principles of accounting, and guidance on procedures and functions. The need for a cadre of high quality accountants was also recognised.

**6.2.4.** Outputs from the first phase included:

- a distance learning MSc (Economics) for 20 senior officials (not strictly within the scope of the project);
- a workshop on training for senior and middle management;
- assembly of law and regulation for budget execution;
- reproduction of law and regulation for budget and budget execution;
- a survey of budget execution procedures and issue of a manual.

However the end of phase review concluded that training activities had been carried out only to a limited extent (compared to objectives): there was no long-term training plan, incomplete seminars for senior staff, and no initial training for personnel involved in accounting and bookkeeping.

## 6.3. Objectives and Outputs

*Phase II: Jan 1994–Dec 1996*[31]

**6.3.1.** The period under review therefore, was starting from a low base. The objectives of the first year were stated, in summary, to be[32]:

(i) equip the training section to train in budgeting, accounting and use of computers, and to train the staff in training methods, organisation and support activities;

(ii) identify trainers and target groups at central level for training in budgeting and accounting;

[31] Effectively phase 4, with it really starting 1 Jul 93 and extending to 30 June 96. This was later extended to 31 Dec 96 to adjust for the Sweden's change of fiscal year to the calendar year as from 1 Jan 97.

[32] These are rather differently stated and in more detail in the Annual Progress Report, 1994/95 and Annual Plan of Operation 1995/96, dated 31 March 1995, which points out that medium term objectives had not originally been set.

(iii) start the training process for both training of trainers and the target groups to improve understanding and performance of procedures.

**6.3.2.** In this first year the expectation was not high with the stipulation being limited to "at least one" each of the following: seminar on financial management for directors within the ministry; course for middle managers on financial management and budget preparation; course at basic level for financial management, budget preparation, budget execution and accounting; course for trainers. Years two (and three in as much as it was defined in the plan of operation at all) was described in almost identical fashion with continuation of the activity, but extending from central to provincial level.

*Phase III: Jan 1997–Dec 2001*

**6.3.3.** In this phase the training activity increases dramatically, with a rise in trainees from 138 in 1995/96 to 1,128 in 1997. Added to courses on budgeting and accounting was the start of training for trainers' courses and a major effort on the new budget classifiers (1,074 trainees). This level of activity continues for years 1998 and 1999, with an emphasis on budget programming and computers (basic level), and in 1999 the computerised wage system. Years 2000 and 2001 continue the activity, moving into a refreshment phase.

## 6.4. Achievements and Impact

**6.4.1.** The WB Fiscal Management Review[33] had criticised lack of support to training from the top management of MPF. The project realised that the objectives could not be met without organising a major training effort. The aim was sustainability and therefore, the need to institutionalise the approach. The starting point was a study to understand the requirement at a national level: how many people and what profile. The numbers, age, education and experience, including training experience was determined. This has been described as a good statistical document. We have not seen the document and wonder at the level of training needs analysis conducted but given that the objectives were mainly procedural/technical, the need was probably fairly obvious and not in dispute.

**6.4.2.** The emphasis was vocational/technical training. The project team members had been mapping the routines and processes but it was the training resource that drew up the manuals through a long process. Seminars were held to discuss the issues and get the manuals right. A manual of legislation was also prepared during the same period – 1993–95.

*Capacity transfer and institutional support*

**6.4.3.** Support was given in setting up the training department, producing written training materials, policy, guidelines, course manuals and profiles, session plans, end of course tests (where applicable) and evaluation questionnaires. Support extended beyond the SFMP into the design and running of other courses. This included managing a scholarship programme. Towards the end of 2003, 43 staff were on work related courses in Mozambique. A database is kept of personnel trained although there seems to be little attempt to use this for follow-up – for example to determine if staff are still in post or whether performance improved.

**6.4.4.** In the field of training the project was most integrated to the ministry, building capacity together. It is difficult to distinguish project activity. However, suggestions were made that the training department is less successful where it is not subject to the impetus or "push" provided by the project consultants. Naturally, there would not be full agreement on this point but there is some evidence of limited activity originated by the ministry. There was consensus on the importance of the consultancy inputs. The project has helped provide the capacity for the training department to:

[33] Fiscal Management Review, Stage One Status Report, 28 June 1996 (Report No.: 15890-MOZ)

- organise courses;
- do training needs analysis;
- use a team of 60 internal trainers;
- have access to a training coordinator in each ministry and province;
- apply methodology to elaborate strategic training plans;
- apply a training policy;
- access three manuals on how to organise and manage training;
- use defined materials;
- access a database of attendees.

**6.4.5.** This is important organisational strengthening. There are many examples of the project helping the ministry to identify talented individuals, give them opportunity and the benefit of support. These are people who have managerial potential for the future, can look at arguments and alternatives, take a critical analytical position, build consensus and be decisive and committed.

*Training of trainers*

**6.4.6.** The question was by what means was the required quantity of people to be trained? The approach adopted was a training of trainers programme covering both training methods and technical capacity. Working closely with DNARH the trainers were identified, a total of some 60 senior financial management staff, the majority of whom are still available. A total of 33 courses were delivered in two phases, covering budget, accounting, assets, treasury and payroll. Following their training the training staff sat with the trainers working up the materials to ensure quality and consistency. The same materials were delivered in the whole country at the same time.

*Evaluation*

**6.4.7.** The training of trainer participants were evaluated on their training capacity (not their technical knowledge, for which their capacity was known). This was done by the trainer evaluating through a report on each trainee following practical work, simulations etc. Some were rejected.

**6.4.8.** Two questionnaires were created for wider training evaluation. First level evaluation of both trainer and trainee was achieved via completion of immediate post course questionnaires and later through monitoring problems via the directors. In one case a trainer had to be changed after problems were identified in several ministries. For IT courses a test was set at the end of the course.

**6.4.9.** No real attempt has been made to evaluate impact. A local company was appointed to conduct an external study but this did not provide evaluation, more an account of activity and some measure of training satisfaction. A short term input from RRV in July 1996[34] examined how the training function should be organised and on how to make training institutionally sustainable. It attempted to evaluate products so far developed, look at career paths and the need for an accountancy career at the ministry, assess training needs and help formulate how these needs should be met. It confirmed as reasonable the 1992 survey to arrive at training needs but suggested a need for this to be updated. However, three years into this (RRV) phase, this study took place before the training programme had really got under way. It noted that:

- from July 1991 to January 1996 there had been only been 17 courses with 205 participants;

[34] Bo Dahlström and Curt Henning, Analysis of the Training Area in the State Financial Management Project, Training and Consultant Unit Swedish National Audit Office, 16 August 1996.

- elaboration of a training policy had not yet been done, although under preparation. The reasons given were the elections of 1994, and organisational changes;
- the selection process for the training of trainers was said to have been defined but not yet implemented;

**6.4.10.** Without being specific the report raises some questions about poor procurement and the value being achieved for local training service providers. It criticised incentivisation payments[35] to in-house trainers as far too generous. It further notes that training activity separate from the project is very low owing to lack of budget[36].

*Training coordinators*

**6.4.11.** To avoid all the training continuing to be organised from Maputo, training coordinators have been appointed for each of the eleven provinces. An annual seminar, the first part of which is a training session, is provided. There are indications that this approach may not be fully successful in that there is:

(i) lack of incentivisation – there is no level of hierarchy, position or responsibility allowance. Whilst the coordinators would obviously want some recognition there is no desire to create alternative training department capacity in the provinces;

(ii) lack of clarity in role (no terms of reference or job description) – this however, may reflect a more general problem in that the ministry does not have job descriptions, a failing now understood in MPF (there is no performance appraisal system either). However, every year the coordinators are invited to the seminar, where the job is discussed – how to do and what to do and learning how to organise materials, etc.;

(iii) anecdotal evidence exists that the same people were going on courses with others overlooked. Obviously to be chosen for a course is a special opportunity with travel, expenses etc. Responsibility for selection rests with directors not with the training coordinators. Coordinators receive information on the course and can discuss participants with their directors. The profiles should be respected however, and the coordinators do have the option of raising a case with the training department. The final decision rests with the training department. Refusals have been made – as in the case of a provincial director wanting to send a secretary on an accounting course.

*Management training*

**6.4.12.** Whilst the emphasis has been on technical training, in its final phase the project has tried to deliver management level training but this appears to have been very limited. A training needs look at candidates' backgrounds found many at a medium educational level, suggesting they may have encountered difficulties with advanced management concepts. Delivering basic concepts to people in senior positions may have proved negative, questioning their understanding. The major problem however, is bringing provincial directors and other senior staff together, when they have so many demands on their time. Whilst managers at all levels are said to understand the importance, there is never a good time and permission from the top-level posts can be problematic[37]. This is unfortunate as one senior staff member commented particularly on the benefit, describing a leadership course as giving him a different vision of the process of management, the approach to which he had not previously realised.

[35] Participants got attendance and meals. Accommodation was paid directly.

[36] USD3,000 for 1994!

[37] An example was the results based management seminar conducted 27/28 November 2003, where venue and numbers were changed at short notice.

**6.4.13.** Nevertheless, the project has had a positive impact on management by identifying high calibre staff and assisting with their development and advancement.

*Human resource management*

**6.4.14.** A frequently repeated complaint on the HR development side is the lack HR management policy, a long recognised problem. The ministry is failing to absorb the training outputs and training impact is very much less than it could be. There are constraints on selection/recruitment, lack of coordination of redeployment (of staff following training), transfer and promotion and lack of performance appraisal (the base of training). It was stated that there is significant loss of staff to the private sector[38]. Part of this goes beyond DNARH and beyond MPF and falls in the ambit of the Ministry of Public Administration. However, some responsibility rests with DNARH too where there appears to be some inertia: for example, they have a HR system (SIP), which is said to be a simple list of people, with no record of their training progression.

**6.4.15.** The project possibly did not explain sufficiently the need for a broader approach and was too busy focusing on the training. Situated narrowly and at too low a level organisationally within a single directorate, the project was unable to address ministry wide issues and get sufficient acceptance of the need for change. This issue is discussed more fully under the chapters on institutional issues and project management (see section 4.4).

**6.4.16.** Recently however, MPF is showing awareness of the need for wider institutional/organisational reform and HR management issues have apparently been picked up in their functional analysis being completed with the help of CESU. The plan of operation for 2003–05 intended, inter-alia, to assist with the preparation of a human resource management plan.

*SISTAFE*[39]

**6.4.17.** Some concern was expressed over SISTAFE training. UTRAFE apparently has a training strategy and plan but they do not have dedicated training consultancy support nor do they give prioritisation to the technical work being coordinated with training. The training effort cannot just be outsourced. It will require the technical areas to articulate requirements and assist with defining the training in order that the training department can act. As an example it has been said that training of trainers has been delayed owing to development pressures and some new procedures have been issued directly in writing, without consideration being given to the staff understanding and ability to implement. This has implications for success and sustainability.

## 6.5. Conclusions on Training and HR

**6.5.1.** Although seen as a support function to the technical work, the training activity has had, arguably, the greatest impact. It was focused correctly, if a little narrowly, on the technical need and weaknesses identified. The component was closely integrated with the MPF through the training department, creating sustainable capacity – a significant achievement. Close working arrangements were established. All those involved were highly appreciative and regretted the closing of the project.

**6.5.2.** A slow trend in educational standard in the ministry is discernable when figures from 1993, 1996 and 2002 are compared. Distance learning and study tours contributed to increased capacity. However the major achievement is the volume of training delivered to a high proportion of staff countrywide. With some 7,000[40] personnel receiving training, mainly after 1997, this component created the human

[38] High turn-over was frequently mentioned but does not appear to have been quantified. Interestingly, it did not appear to be a problem in Nampula where it was stated that only 5 staff had left in 5 years.

[39] It is beyond the scope of the study to evaluate SISTAFE in any detail. However, the recent Quality Assurance Group expressed reservations about project preparedness in terms of project management, coordination and training.

[40] 6,815 since 1991 to the end of 2002.

capacity, which enabled the state accounts to be produced and has provided a platform for the later modernisation efforts. Implementation of SISTAFE would not have been possible in 1993 and is drawing on the training manuals produced and on the human capital created. As one MPF staff member said "we have come far and have learned a lot".

**6.5.3.** More negatively there were very few courses from 1993 through 1994 and 1995. The objectives of the plan of operations for those years were not met and the July 96 study (see footnote 34 above), further indicates that little training activity had taken place, the training policy had not yet been established, nor the selection of the trainers implemented. It appears that up to two years may have been lost. Why this might be so is difficult to ascertain from this distance.

**6.5.4.** One explanation is that the scale of the undertaking may have been daunting. Certainly when training plans were finally presented to management, approval was not given initially. It is understood that this was because, whilst accepted in principle, the plans were seen as theoretical without it being clear how they were to be accomplished. The solution was to make a start and revert for approval with a practical demonstration of how it could be done. This situation however, reminds of the question mark on management commitment to training (see paragraph 6.4.1). The question is reinforced by the observation that invariably requests for training funds would be removed from budgets.

**6.5.5.** The prime reason however, was probably that as a support function the training activity had to reflect progress in the projects main technical components. Certainly a lot of less focused or general training activity may have been wasted or even counterproductive. The major effort in training was therefore, dependent on the slow formulation of the government's fiscal reform strategy and the passing of the budget reform contained in the law of 1997 and the associated changes in classification, for which the training became a vital element of promulgation. 1997 became a boom year for the training activity.

**6.5.6.** It is perhaps unfortunate that the project did not extend the scope of activity to address some of the organisational issues, such as HR management policies, that had a negative impact on the overall project, on the training component in particular and on project sustainability. But this would have taken the project into some very intractable problems (such as remuneration levels and incentivisation) and changed its nature from one with a technical emphasis to a more holistic, strategic, institutional development project. This subject is dealt with in more detail in section 4.

# 7. Information Technology/Systems

## 7.1. This Section

**7.1.1.** This section records our findings for the support component of computerisation in terms of the status at the start of the review period, the outputs and achievements.

## 7.2. Starting Point

**7.2.1.** The results analysis report of 1988–95 described in slightly confused terms what had been achieved (approximating to the start of the evaluation period). Some progress was noted in the computerisation of "various routines". Data processing is described as improved. More concretely, outputs are given as three networks installed, some 70 computers and a "considerable number" of staff trained in the use of computers.

**7.2.2.** Objectives for the next phase for computerisation were similarly vague. The project was not seen principally as a computerisation project and the IT component was described as in support to the budgeting and accounting areas. Linked to this was the objective of building the capacity of the MPF in the use of computers and creating a more secure structure for computer use. Planned activities included:

- training a pool of staff of system administrators, programmers and analysts;
- upgrading the knowledge of users;
- modem connectivity with the provinces.

## 7.3. Objectives and Outputs

*Phase II: Jan 1994–Dec 1996*[41]

**7.3.1.** The January 1994 inception report (updating the July 1993 plan of operation), gave the following objectives for the computer component:

(i) budgeting – database type software for budgeting;

(ii) accounting – computerisation of the then present accounting routines namely:

- state budget incomes and expenses;
- treasury operations (incomes and expenses)
- state budget allocations and commitments.

(iii) implementation of the computerised accounting system at the provincial level;

(iv) network installation at the training centre;

(v) as part of the training component the training of users in order to provide a basic capacity for the computer operations;

(vi) establish a computer policy for the ministry, covering hardware, software (including application and development tools) security, maintenance and training.

**7.3.2.** The second year of the phase was to have seen the further development and installation of systems for salaries, pensions, budget execution, treasury operations and roll out to the provinces. Training was to continue for the computer technicians with the hope of increasing administrative capacity in solving day-to-day problems in computer use.

*Phase III: Jan 1997–Dec 2001*

**7.3.3.** The start of this phase saw the finalisation of the roll-out of systems to the provinces. Although there is no evidence of a formal IT/IS strategy development, a de-facto standard for the provinces is based on stand-alone computers (at least three plus peripherals per province), Windows operating system, office software using Microsoft Office Professional and application software developed for the accounting system, programmed in Clipper language. In the first phase the provinces were to receive the pension payment and expenditure payment (book 17) software. This would be followed by the software for budget and budget alteration to enable control of budgetary coverage (cabimento orçamental), in the budget execution process.

[41] Effectively phase 4, with it really starting 1 Jul 93 and extending to 30 June 96. This was later extended to 31 Dec 96 to adjust for the Sweden's change of fiscal year to the calendar year as from 1 Jan 97.

**7.3.4.** At the central level additional investment was envisaged to upgrade the three networks at MPF. Work had begun to convert (to Clipper) two other applications developed in Paradox (treasury operations, book 16 and treasury, book 15), for eventual provincial roll-out. Further applications were envisaged to account for revenues and to compile data from the various registers in order to prepare consolidated accounts at provincial and central level.

**7.3.5.** By 1998 the following computerisation outputs had been achieved and it was anticipated these would be relied upon for some time following the budget and accounts frame law entering into force:

- "liquidation" and payments (book 17);
- treasury operations (book 16);
- salary payment system;
- pension payment system.

*Other applications*

**7.3.6.** Regarding the salary system, DNCP has responsibility for budget execution plus associated personnel type functions. For the central level CPD provides a salaries system/service[42]. In 1999 the project was requested to assist with a system for the provinces. This was developed in Clipper to run on Windows. There was no plan for integration with any HR management systems but a recent short-term input has examined issues related to the introduction of an integrated HR management/payroll package (see paragraph 9.12 on future support needs).

**7.3.7.** Other outputs included:

- IT section established within DNCP in 1997;
- upgrading the network at DNCP – 1998;
- a web based intranet introduced to DNCP;
- communication system for the transfer of data from DPPFs and national directorates;
- development of IT policy documents.

**7.3.8.** Application work activity included software for:

- preparation of the state annual account – developed in Access;
- quarterly reports on budget execution definition – Clipper/Excel – developed in 1999 (and introduced in 2000).
- and support to the planning work for the IT system related to the new accounting model.

*Phase IV/V: Jan 2000–Dec 2002 [03]*

**7.3.9.** Activity included support activity and consolidation through technology upgrade etc. Beyond that, we cannot comment on the activities for this phase, as we cannot attribute some of the results achieved in the plans of operation to a particular year/phase. The 2003–05 plan of operation talks about "*various computer applications [for] payment of pensions, processing of salaries, advancement of funds per treasury operations are presently in…development*". However, as these appear to have been described as outputs from previous phases and are not elsewhere described it is difficult to be precise.

[42] Run on an AS400 with Cobol programming.

**7.3.10.** One substantive output was the invitation to tender (dated 21 December 2002), for the enterprise resource planning software for e-SISTAFE, which in the event was not issued. There was a related short-term study[43] looking at the options in terms of technical architecture, recommending a central server site (with either single or distributed database).

## 7.4. Achievements and Impact

*IT capacity*

**7.4.1.** In 1997 there were few IT systems and implemented at the centre only. Very few staff were able to work with computers and there was a small IT section of only two in DNCP. There were limited resources too in other directorates. There was no IT/IS strategy in place[44]. The aim was to spread use of the existing modular applications (which were working well and developed since 1995), to the wider country.

**7.4.2.** A province wide survey was conducted to find out what type of IT was available. A questionnaire was used to determine skills levels. A training programme was devised (it continued every year, 2 or 3 courses) bringing staff to Maputo from the 11 provinces:

- training in standard office applications (Word, Excel) – 2 staff per province;
- selected staff in the use of the business applications.

**7.4.3.** It became clear in 1998 with the development of further modules that more IT resource was needed. Recruitment proved not to be possible through the normal civil service arrangements and the national director agreed to recruiting 5 staff on contract under the project. The project worked with the university to identify the best candidates. This brought the IT resources in DNCP to 8, including the project team IT resource.

**7.4.4.** Unfortunately two of the best IT staff left DNCP. It is believed that this is not only about salary[45] but owing to the lack of commitment to full time government employment and lack of HR policies and career planning and opportunity for travel/training. This effects enthusiasm and commitment. Currently only two of the 5 IT staff are left (now to be paid by UTRAFE), plus the original two resources. For further comments on the impact of HR policies and on the impact of the project on user IT capacity ministry wide, see the section on training component (section 6).

*Technology and upgrade*

**7.4.5.** The IT component was not only about development of applications. The duration has been such that there have been several upgrades of technology. The book 17 programme written in Clipper[46] originally ran on 286 machines with MS DOS operating system. Novell 3.1 was used with a small server, networking 8–10 workstations within DNCP, with no connectivity to other directorates or email. Upgrade to Windows NT plus additional workstations was made in 1999. In the beginning transmission of data was by diskette. Budget information was forwarded from the budget system by diskette or CD, placed in book 17 and distributed to the provinces by diskette or CD. In 1998/99 email was implemented from all provincial capitals[47]. Fortunately as the technology has been updated, it has not been necessary to migrate the modular applications.

43 Orjan Sinclair, SIPU dated 10 September 2002.
44 It is not known if an IT/IS strategy now exists under UTRAFE.
45 MPF salaries are boosted 75% by allowances so salaries are said to be more or less comparable.
46 Clipper was chosen because it was a sufficiently powerful language with which the IT resource (Armando Paulino) had experience.
47 Using the university system originally. Teledata (subsidiary of TDM) is now being used

**7.4.6.** In the ministry as a whole, rather piecemeal choice of software is in evidence reflecting the lack of strategy and standards. The budget system was originally in Paradox, then Dbase and then upgraded using Delphi, an Oracle database and Windows 2000 operating system. WB counterpart funds funded the treasury system; a standalone Paradox system for registering the treasury operation cash payments and reconciling with information from the central bank. As there were no IT personnel in treasury able to develop and maintain this, the project was requested to convert to Clipper and the project began to support this. It was rolled out to the provinces.

**7.4.7.** In 2001 a new project started development with EC funds, computerising treasury and book 15 and 16, using Access and Basic. This was not implemented, as SISTAFE has taken over.

*Cultural change in IT use*

**7.4.8.** It is often forgotten that in most environments the use of IT has gone through a transformation during the life of this project. In 1994 (let alone 1988), even in the developed world, private sector as well as public, the PC was not ubiquitous, email use and internet access only about to become universal. It is too easy therefore, to judge the MPF as being at a very low starting point and to credit the project with the transformation. Nevertheless, for MPF, the project has introduced the computer to many business processes and kept them abreast of developments. It provided funds and know-how to enable what might not otherwise have happened.

**7.4.9.** In that sense there has been a major "cultural" change in the use of IT. Big increases in the number of users occurred, well trained to work with IT, independently and confidently. This extended to the provinces. There was a resulting jump in the quality and timeliness of work. The IT consultant member of the project team highlighted a good example of this change. She pointed out that callers to the help desk from the provinces now volunteer some form of diagnosis of the problem.

*Maintenance and security issues*

**7.4.10.** Written guidance manuals have been issued on day-to-day maintenance, UPS use and back-up (the need for which is now understood). One person is responsible in each location for administration. The email systems are kept on stand-alone machines with a dedicated line. Norton anti-virus is used with regular downloads of updates. At DNCP there are mirrored servers, tape drive for back-up (both data and full application back-up – per week, per month). Copies are kept off-site.

**7.4.11** However, these arrangements are less systemised at provincial level. Each person has a password. IT rooms are locked and visitors escorted. However, whilst back-ups are taken these are not stored off-site. Disaster recovery would involve the loss of up to one month's data.

## 7.5. Comparisons with SISTAFE 2

**7.5.1.** As required by the TORs, in the next section (section 8.4 and 8.5) we compare the proposals of this project and the current SISTAFE 2, in accounting model terms. Any comparisons in IT terms would require an in depth review of SISTAFE 2 beyond the information made available to us and what can be achieved here. Nevertheless, we include some further observations on the IT strategies adopted etc.

**7.5.2.** Before doing so it is worth highlighting some fundamental, almost philosophical, differences. As we have commented, most of the activity on this project has been about improving reporting of expenditure and achieving control within budget limits. But the declared project goal in 1988 plan of operation was about implementing a modern system that would allow political allocation of resources and management control in terms of evaluation of the budget effects. The starting premise of the project's approach to the new accounting model appears to have been therefore, to recognise the reality of the decentralised expenditure control and to give the spending departments the tools that meets their business needs. Everything that has been written by the project since, has stressed the need for results based budgeting and enabling programmatic budgeting.

**7.5.3.** This is reflected in the plan of operations 2003–05, which stresses the focus on the sectors needs and the need for management aimed at the results to be achieved. This "philosophy" is reflected in the IT design and the choice of package software and in the dialogue with spending departments. But was there sufficient discussion of SISTAFE 1, not at the IT technical level nor even at the accounting model level but at the policy goal and strategic level? For example the policy towards:

(i) decentralisation;

(ii) delegation of budget management and the power of vires to the decentralised level;

(iii) budget execution control at the centre and management accounts at the spending department level (enabling programmatic budgeting /accounting).

**7.5.4.** It seems from an external perspective (and after the event), that the discussion got mired in technical accounting jargon (double entry, accruals versus cash, modified cash etc.). But was there discussion on basic principles? If there was discussion was there commitment? This may be significant given what subsequently happened. It was said during one of our interviews that the speaker did not believe there was ever any MPF commitment to move from control towards a service orientation. Was this extended to a lack of commitment to the goal of the Swedish project, with all its implications?

**7.5.5.** Our understanding is that currently SISTAFE 2 does not cater for the needs of the spending departments but is about MPF control and reporting needs? To that degree it is a backward step. Is SISTAFE 2 going to have another phase, which will provide for, arguably, the more complex dimension of systems to meet the business needs for the spending departments? Of course, if it does not there is nothing to stop independent spending department developments and we believe there would be low risk in achieving an interface with the reporting requirements of the centralised MPF system. Nevertheless, there has probably been a delay to the developments for the spending departments by at least one year.

**7.5.6.** Finally, in more IT technical terms we understand that the decision to have a bespoke development for SISTAFE 2 was considered very carefully by UTRAFE in terms of cost (both development cost over licence cost and in terms of support and maintenance) and sustainability; i.e., the benefit to MPF from the development carrying over to the support function. Conventional wisdom might suggest otherwise. It is also understood that this project gave careful consideration to package versus bespoke and selected the package route. Of course, the two approaches are fundamentally different and it is feasible that the considerations would yield different results.

**7.5.7.** A key part of such a decision is the degree to which a standard package might need to be developed to meet a particular requirement. Here we suggest that whilst there would almost certainly be functions unique to MPF (for example the single account developments), we would still anticipate a balance of common function met by the best practice encapsulated within a package. Further:

(i) development cost: licence costs for a major accounting package can appear daunting but many of development costs of a bespoke system can be hidden and if development does not go well there is a risk of runaway cost;

(ii) support and maintenance: the need for this is always underestimated. MPF need to be very clear that it can retain the required capacity. It also needs to be aware that unless a bespoke development is conducted in structured environment with laid down standards, then resilience and the ability to enhance readily, may be lost;

(iii) sustainability: if MPF cannot retain capacity, sustainability is not realisable. It also has to be clear whether MPF is really creating capacity from the in-house development or whether, in practice, it is being out-sourced[48].

**7.5.8.** Time will tell which was the best strategy but we trust that the risks within a bespoke development have been addressed.

## 7.6. Conclusions on IT

**7.6.1.** For the first several phases this project was not seen as a computerisation project. It did not attempt a very technical IT system development component. It was of lower ambition, seen very much as in support to the budgeting and accounting areas. It contributed a series of low technology, ad-hoc developments of selected parts of the business processes. Linked to this was the objective of building the technical capacity of the MPF and creating a more secure structure of computer use. For at least the first half of the period under review the aim was to consolidate and make the existing budget and accounting system more efficient. This was probably about right in terms of ambition[49].

**7.6.2.** In the field of IT good cooperation between the directorates existed, working to try and find a way to share data. The twice-monthly technical group was a forum to work through problems. The weekly director meetings also contributed to collaboration (but see below).

**7.6.3.** The IT component provided important tools for data accuracy, the streamlining of processes and for the control of budget execution. Together with the training the component provided important modernisation to the capacity of MPF. Although we have little information to base a judgement, the applications appear to have been robust. This view was supported by the system administrator in Nampula (who said that they had never had interruptions to the functioning of the applications), and supported by the fact that they were unaffected by upgrades to the technology of the platform.

**7.6.4.** The constraints met in effective IT management and in bringing in (and keeping) capable IT resources are common in the public sector in many developing countries and not something the project could readily resolve. More negatively the project did not provide for:

(i) an IT/IS strategy and IT policies or standards for MPF, something the project should perhaps have tackled given the need to work across directorates;

(ii) a centralised IT function. There was an obvious lack of integration of IT initiatives with each directorate dealing separately;

(iii) sufficiently comprehensive policy guidance for IT management, particularly security and disaster recovery.

**7.6.5.** If it started as low ambition in technology terms this changed as the project moved towards providing an integrated financial management system, involving:

- tendering for an accounting software package;
- customisation and testing

[48] This is not to say there are not learning experiences managing a bespoke implementation but this would be similar to managing a customised package and roll-out type of implementation.

[49] And as the CFAA remarks a sophisticated IFMIS is not a panacea.

- piloting;
- roll-out to all the spending departments and provinces.

**7.6.6.** Whilst ambitious we would find little to criticise the strategy chosen in IT/IS terms. It was to procure a modern, proven and flexible accounting package using feasible technology, with fall-back options for data communications. We would though, have some concern about the readiness to issue the e-SISTAFE invitation to tender. It is not that the design of the new accounting model was still under development, nor that the document is not technically sound but there appear to be number of issues left open in IT terms, such that the risks within the procurement would seem to have been quite high. Examples would be the lack of:

- certainty on the number of sites and whether single or distributed database, which may have affected licence costs (and would have a major impact on support and maintenance costs);
- definition of the service levels required for support and maintenance;
- definition of the training need;
- a model contract.

**7.6.7.** Whilst none of these issues are insurmountable, nevertheless we feel that overall the tender document is somewhat lacking in explaining how it is to work and what is expected of the contractor.

# 8. Accounting Model/Standards

## 8.1. This Section

**8.1.1.** This section covers the changes made or proposed to the budgeting, expenditure control, accounting and reporting system during the period 1994–2003. It also compares the proposals in 2002 of the Sida-funded project (SISTAFE 1) and the current SISTAFE model (SISTAFE 2). It does not cover details of computerisation, nor treasury and banking operations.

## 8.2. Starting Point

**8.2.1.** The team did not find any formal documentation of the system as it was in 1994[50]. However, it is known that it was based on a Law of 1901, Regulations of 1881 and Portuguese colonial practices, scarcely changed since independence in 1975, despite the enormous increase in government functions and volume of transactions. State accounting was in disarray, due mainly to the repatriation of the Portuguese senior administration and the civil war from 1976 to 1992. The registration of non-cash assets had broken down since 1940. Fifty percent (50%) of staff lacked education to the 9th grade[51]. Weaknesses in the Bank of Mozambique (BoM) prevented timely and reliable data on cheques cashed,

[50] This was probably the same as documented in a baseline study by a joint Dutch/Swedish mission in 1987, but their report could not be traced. Bretschneider says that the accounting problems had not been fully researched or documented at 1994. Nevertheless, he shared the opinion of GOM that problems were due to lack of staff knowledge and discipline, not to the system itself (p. 77).

[51] Grade 1 starts at age 5 and grade 12 (at 18 years), should be university entrance level. Grade 9 is age 15–16. There may be different ages at different levels owing to financial constraints, lack of teaching facilities etc. It is common for Mozambicans to start work and continue to study on a part time basis (for example, someone in their thirties studying to year 12 level).

so it was not possible to reconcile the monetary accounts with the fiscal accounts, or to identify fraudulent payments. No annual State General Accounts had been presented for audit or to parliament since 1975.

**8.2.2.** Though the state budget had been produced since the late 1980s, there was no multi-annual planning, such as a medium-term expenditure framework. The budget process was incremental rather than being based on work plans, with percentage additions for expected inflation. Budget data were of poor quality. Most donors did not integrate their resources with those of the state. Capital and revenue budgets used different years and were separately prepared and scrutinised. No outputs or results were budgeted. Though expenditure budgets were highly detailed and every line was centrally controlled, there was little transparency and corruption was believed to be endemic. Compliance with budgets was poor, e.g. provincial administrators drew on investment allocations to meet under budgeted salaries and other recurrent expenses.

**8.2.3.** Both budget preparation and accounting (budget execution), were the responsibility of the budget directorate. As the number of line items in the budget was huge and accounts had to be kept for all of them, the volume of ledgers was very high. Budget and account classification was the same: by ministry or organisational unit responsible, and by nature of expense. Thus, it was not possible to:

- say what had been spent on any programme, project or activity (unless this corresponded with an organisational unit having its own budget);
- track expenditures on categories such as poverty-reduction;
- know what was spent on behalf of any province or other geographical unit;
- distinguish between expenditure on general administration and on programmes;
- track expenditures funded by any particular donor (though donors remedied this by instituting their own parallel accounting systems).

**8.2.4.** Civil service pensions, and expenditure control at central level, had been computerised in 1991 and 1992. Apart from these processes, accounting involved a score of hand-written registers (*livros)* and reconciliations. Receipts and payments were not posted to a central general ledger, so there were no regular arithmetical checks on the equality of debit and credit entries. The system served the single purpose of ensuring that public funds coming from the treasury were spent legally, in accordance with the approved budget, line by line. It was a "budget execution model". The only management use of this model is to provide answers to the question: "how much treasury money is still available for spending?" or, conversely, "who has overspent treasury funds?" It may be especially noted that treasury money was only a fraction of total public funds, as expenditures from donor funds and from revenues collected and retained by line ministries and provinces were not centrally accounted for. They bypassed the treasury system, despite the law that required full accounting for all public revenue and expenditure.

**8.2.5.** Though expenditure transactions were (and are) registered at commitment (*cabimentação*) and issue of cheque or payment order (*liquidação*), they are not counted as expenditure until cheques are cashed (*pagamento*). They are not registered at the intervening point when invoices (for goods, services) are received, which would be the basis for recording expenditure in an accrual-based system.
The books were kept open for a "complementary" period of three months after the end of the year, so that amounts committed and advances made during the year from the year's appropriations could be settled and cleared to expenditure for that year. In terms of the IFAC classification, it was a *modified cash system*.

## 8.3. Objectives and Outputs (Budget and Accounting)

**8.3.1.** The work done up to 1996 on budget computerisation, budgeting and accounting manuals and the budget preparation circular (*Metodologia*) had little immediate result, but laid the foundation for development of the state budget and State Annual Accounts Frame Law 15/1997 and Decree 25/1997 (both passed in July 1997), in which the project played a central role. Also in 1996 and 1997, the computerisation and documentation of further manual routines for budget execution and accounting, at both central and provincial levels, prepared the ground by familiarising officers with the exacting demands of computers and improving the quality of financial data.

**8.3.2.** Responsibility for accounting was separated from responsibility for planning and budgeting. The DNCP was set up in 1996 and the project moved to this new directorate. At the instigation of the project, technical working groups were set up, comprising the senior officers from all directorates affected in MPF. A working rule was established that no changes would be proposed except through the relevant technical group, so as to ensure full MPF ownership.

**8.3.3.** At that time, MPF priority was on establishing order and discipline – getting the existing routines working as they were supposed to work, not on any changes to the system itself. The frame law and decrees were not seen as a new accounting model, but rather as a legal basis for making the existing model work. The law reinforced parliamentary accountability, and the decrees refined the budget structure, mainly by slight changes to the economic classification and adding a classification of expenditure by function, based on the UN Common Functions of Government (COFOG). Training in the frame law and classifiers was given to thousands of staff in the ministries and provinces between 1997 and 1999. This enabled the MPF, for the first time since 1975, to prepare the State General Accounts for 1998, including about 20 tables of data on the new economic and functional classifications[52]. Their presentation to Parliament in December 1999 marked a return to democracy. The event was widely reported and made a big public impact. The State General Accounts continued to be prepared year by year, but the 1998 accounts were probably the single most visible output.

**8.3.4.** The accounting component of the project and the technical groups next focused on in-year reporting. A quarterly budget execution report was designed and started being issued from the first quarter of 2000, in accordance with the frame law. This report is issued within six weeks of the end of each quarter. The IMF-GFS annual formats also started being completed and returned.

**8.3.5.** Though accounts and reports were being prepared, they still omitted significant departmental and external revenues and expenditures[53], estimated at between a third and a half of all public funds, so their value as guides to fiscal management was limited. A major diagnostic study was made in March 1999[54]. Despite political and administrative resistance, procedural changes were made in January 2002 to capture data from donors, banks and ministries/provinces and increase the coverage of the accounts. The percentage of "off-budgets" included in the accounts is estimated by DNCP to have increased from 20% in 2001, to 40% in 2002, and 60% in 2003.

**8.3.6.** Out of the PFM diagnostic work done by the IMF and World Bank in 2001, pressure arose for a more comprehensive PFM law. With project support, the technical groups had been working since 1998 on a new law for an integrated FM information system (SISTAFE). This was finalised, accepted by the Minister of Finance and the Council of Ministers and became the State Financial Administra-

[52] The completion of statements for the intervening years was assisted by a UNDP-funded project. From 2002, a further breakdown was made of the COFOG classification to the 4-digit level, based on an MPF Instruction (diploma) of May 2001, to provide more relevant data on poverty-related expenditure.

[53] Budget support and World Bank loans and the corresponding expenditures were included.

[54] Identificao dos 'Off-Budgets' e Mecanismos para a sua Integracao no Orcamento do Estadoo, Relatorio Preliminar.

tive Law 9/2002, in February 2002. This was followed by Decree 17/2002, approved by the Council of Ministers in June 2002. Training seminars and a technical specification for an ERMS customised software package were prepared. In April 2002, the project was discussing the possible takeover of an EU-funded project in the treasury. GOM made an informal request to Sida to extend funding for a three-year period to 2005. Pilot projects were planned for four ministries and a province in 2002, ready for full roll-out in 2003–2004. Work on this slowed as it emerged that a new IMF-sponsored model was preferred, and stopped altogether in October 2002.

**8.3.7.** The project did not succeed in extending support to sector ministries in the development of their financial management function. On the contrary, sector ministries distrusted MPF involvement in their affairs (Sjolander 1993) and started developing their own systems independently. For instance, in March 2002, a consultant examined a Ministry of Education (MoE) plan for FM capacity building and systems development. This included provision of an interface for importing/exporting information to and from MPF databases, which would enable all necessary returns to MPF at both provincial and ministerial levels: "*Such an interface should not be difficult using a mid-range ERMS*" (Murphy 2002). The MoE was able to secure funding from the basket fund for the support of the educational sector and implement its plan.

**8.3.8.** For this evaluation an attempt has been made to evaluate the overall changes from 1994–2003 in terms of reduction of risk to public funds, i.e. the risk that they are not used for approved purposes, in particular the reduction of poverty. This risk evaluation, included at appendix E, shows that there was significant reduction in risk.

**8.3.9.** Total expenditure of Sida funds directly attributable to the budgeting and accounting components from 1993 to November 2003 was about SEK 50 million, or about 36% of the total. The budgeting component of the project absorbed 91 months of advisers[55], and the accounting component 253 months, representing 11% and 32% respectively of the total adviser inputs.

## 8.4. Choice of Accounting Model

**8.4.1.** This section reviews the choice of accounting model at each stage and its applicability, feasibility, operationality, sustainability, ownership and compliance with international standards (paragraph 3 of the TORs).

**8.4.2.** In 1991, phase 1 of the project saw the rejection of a proposal from the project team for a computerised package solution with a double entry, accrual accounting model. The reason for its rejection was that it was too advanced. The prime contractor that advocated the model (SPM), had their contract terminated. It is assumed that accrual accounting would have been definitely unwelcome but the strongest comment appears to have been reserved for the term "double entry" – it was said that the term should not again be mentioned in MPF[56]. This was a seminal point and laid the direction for several years.

**8.4.3.** The decision was made to work with the existing model, adopting a gradual approach to change, though without much visible output till 1997. The frame law of 1997 made no changes in the basic Portuguese colonial model, though the decree made slight changes in the budget classification.

[55] The budget inputs were mainly in the earlier years: there was no long-term adviser in the budget area after 1997. The budget/accounting distinction is a bit arbitrary, as most accounting inputs could have been counted as budget execution.

[56] These terms are commonly confused. Accrual accounting is always double entry, but cash accounting can be single or double entry. Conversion from a single entry cash base to a double entry cash base is relatively simple, requiring only a general ledger into which receipts and payments are posted. Although strongly resisted, in GoM's centralised system this could have been a worthwhile intermediate goal to improve arithmetical accuracy.

**8.4.4.** In 2001, the same Swedish consultant who had been primarily responsible for the proposals that had been rejected in 1991, was hired by UTRAFE on DFID funding. The purpose was to develop a conceptual framework for the modernisation of PFM that would "meet all the essential financial information needs of the central government, its constituent institutions and its development partners…" and to present the proposals at an MPF seminar. His proposal was based on the:

- decentralisation of budget management (authority to incur expenditure);
- extension of financial management to results-based management;
- centralisation of cash management (through a single treasury bank account, the *conta única*);
- recording the accrual of revenues as well as their receipt;
- recording the accrual of expenditures as well as their payment;
- the full panoply of asset valuation and depreciation accounting.

**8.4.5.** It also proposed contracting out both design and implementation of the system, which was expected to take only 2–3 years and cost USD5–10M.

**8.4.6.** Though well argued, the proposal was not fully understood even by the donors to whom it was presented. It did not seem that GoM could take ownership of such a system. Critically, it had not come through the technical groups of MPF, as with the outputs of the SFMP project, but from a visiting consultant. Being Swedish, it is probable that the consultant was mistakenly identified with the project. This was unfortunate for the reputation of the project as some who were alarmed by his proposal thought that this represented a tendency by the project to work separately from MPF[57]. In fact, the project team leader, who was on leave at this crucial event, disagreed with the proposal. With the "experts" divided, this was a period of great confusion.

**8.4.7.** Throughout its life, the project has been subject to rival cultural pulls, one from the colonial metropole (Lisbon) – the origins of GoM's financial and administrative system, and one from the international standard-setting agencies, such as INTOSAI, GASB, IMF and IFAC, where Anglo-Saxon accounting concepts and practices have been prevalent. The government of Sweden, though following some Napoleonic concepts[58], is in the latter camp. Accordingly the project has consistently pressed for cultural adaptation to meet international standards, and GoM has consistently been reluctant to move too far or too fast in this direction. These countervailing tendencies have provided the main dynamics of the project, together with increasing donor intervention and pressure on GoM as the price of direct budget support.

**8.4.8.** During 2001–2002, the cultural conflict came to a head. Two different models were proposed, one by the project through the technical group (SISTAFE 1) and one by an IMF-funded Brazilian adviser to UTRAFE (SISTAFE 2). These are compared in appendix F. SISTAFE 1 is an adaptation of the Portuguese national system and chart of accounts, which was an accrual-based model used for cash-based accounting in the government and accrual accounting in the private sector of Portugal[59]. To this, the project added:

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[57] Visiting IMF delegates (recording their concern), as well as some MPF management.

[58] Such as a standard national chart of accounts for external reporting, and charts of object codes (accounting plans) to classify expenditure in different ways to meet different internal management information needs (Swedish National Audit Bureau (1992) Accounting Model for Swedish State Agencies). Unlike Portugal, however, Sweden does not have a class 0 for budget accounts.

[59] One advantage offered by SISTAFE 1 is that it would facilitate any future consolidation of private and public sector accounts. Portuguese law is now being changed to allow government agencies in Portugal to use accrual-based accounts. Autonomous agencies already use accrual accounts.

- the traditional class 0 (zero) accounts (see appendix F);
- Swedish government experience of converting from a cash basis of recording revenues and expenditures to an accrual basis;
- the use of a treasury single account (*conta única*), and
- software support.

**8.4.9.** The chart of accounts was fully discussed with MPF, line ministries and provincial finance offices. It was reviewed and accepted by the Sida implementing agency (ESV). The project team and MPF planned to introduce SISTAFE in 2003 and 2004 with a pilot application in four ministries and a province (jointly with the EU project), and arranged initial training for 400–500 personnel and a study tour to Portugal and Sweden. All work on SISTAFE 1 was stopped from about February 2002 on representations to the minister from IMF.

**8.4.10.** The *chart of accounts* had five or six digits that would meet the IMF economic classification including the current/capital split, and management control of important resource inputs. It was divided into 10 classes (see appendix F).

**8.4.11.** The *chart of object codes* contained a number of fields (*campos*) for classifying expenditure in different ways to meet different purposes. The main classifiers were:

- organisational unit (for control and accountability, down to budget holder level, and for geographic [territorial] classification),[60] – defined centrally by MPF;
- function (for sectoral planning, IMF-GFS reporting, monitoring poverty-related spending),[61] – defined centrally by MPF;
- programme/project (for programme/project management and, in the future, for results-based management), – to be defined agency by agency and agreed with MPF;
- source of funds (for reporting on the use of donor funds, and meeting any legal fund requirements);
- up to nine other fields at the discretion of individual agencies (up to 12 digits allowed in each field!);

**8.4.12.** There is, of course, considerable overlap among the above classifications, but not perfect coincidence. For instance, the organisational unit "ministry of health" could not be taken as representing the whole of spending on the health function, as health spending is also undertaken by the ministry of agriculture and rural development, ministry of the environment, ministry of woman and social services, etc. Similarly, the programme classification could not be regarded as a sub-classification of functions because some programmes, such as HIV/AIDS and poverty reduction, cross several functions. Thirdly, the source of funds classification does not have a one-to-one relationship with projects and programmes, as some projects have counterpart funds, multiple donors, etc.

**8.4.13.** SISTAFE 1 introduced a chart of accounts and object codes that went further than matching with budget lines. The intention was to satisfy a wider range of users of accounting information by means of multi-dimensional classifications in the accounts[62].

[60] In Mozambique, expenditure has always been classified 'organically', i.e. by the organisational unit responsible.

[61] A functional classification was required by Ordinance 25/1997 and first applied in the accounts for 1998. It follows the UN Common Functions of Government (COFOG) classification down to 4 digits, giving 59 separate sub-functions. Some functions, such as health, have been more difficult to break down over sub-functions. It has not yet been possible for DNCP to identify expenditure on health R & D, for instance, nor to distinguish outpatient services from inpatient hospital services. In the Quarterly Report for September 2003, 54% of health expenditure was assigned to categories 'not elsewhere classified'.

[62] Curiously, it was commonly assumed that the budget structure was fixed and that only the accounts structure should be elaborated. This assumes that the users of historic data would not also need plan and budget data in the same formats.

**8.4.14.** SISTAFE 1 was probably a lot for MPF to "swallow". In our opinion, it would have been better presented as a phased programme over a period of years, with first priority being given to the treasury single account, then a step-by-step introduction of accrual entries[63]. Subject to this, it was quite feasible and operable. Its national ownership and sustainability would have depended on the method of detailed design, training and implementation. The past experience of the project in building capacity for major changes augured well for the successful transfer of the system to full Mozambican operation. The system would have complied with IFAC standards.

**8.4.15.** SISTAFE 1 was stopped by the UTRAFE team, who objected to the chart of accounts saying it was for the private sector[64] and had not been applied in any developing country. They also criticised the proposed transparency of fiscal data in the general ledger. They tried to change the chart of accounts but found that was not possible. The old chart of accounts is continuing, pending acceptance of a new chart in an ordinance proposed by the UTRAFE team.

**8.4.16.** SISTAFE 2 comprises five subsystems:

- Budget (*Orçamento*)
- Public Accounting (*Contabilidade Pública*)
- Treasury (*Tesouro Público*)
- State Assets (*Património do Estado*)
- Internal Control (*Controle Interno*)

**8.4.17.** The present design of SISTAFE 2 does not refer to development of sector ministry management systems. It is solely a system for centralised budgetary control designed by MPF for MPF. However, it appears that the system does not *prevent* compatible developments in public sector institutions. These should be encouraged. It is understood that line ministries such as education and health, which are responsible for cost-effective public services as well as complying with approved budgets, are continuing systems development. The net effect of the switch in MPF is a delay of about one year in starting implementation. On the other hand, MPF has greater confidence in the outcome.

**8.4.18.** The system, though unique to Mozambique, is based on Brazilian public accounting, said to be implemented within a law of 1964. IFAC has been asked to evaluate whether the model will be able to meet its reporting standards. Their evaluation mission had not taken place at the time of our mission. It is not part of our TOR to evaluate the model, or to make recommendations[65].

[63] It has been suggested that the move to accrual accounting was intended to have been phased, but we would suggest this was not clearly presented.

[64] Again there was a presentational issue. The COA could indeed be described as having elements more appropriate to the private sector accrual basis but these could have been suppressed.

[65] A Quality Assurance Group study has been set up to provide independent and expert guidance. Its first report, albeit with a narrow TOR to examine implementation planning for which it made a number of recommendations, has confirmed that the model is soundly based.

## 8.5. Conclusions on Accounting Model

**8.5.1.** In 1994 there was no international standard for cash or modified cash systems[66]. The only international standards were for accrual-based systems. It was natural that the project team and Swedish visiting consultants should hold up an accrual standard as the goal to aim for. The government of Sweden was itself converting to accrual accounting at that time (1992–93) under the leadership of the RRV, who became consulting contractors for the project from 1993 under the institutional twinning arrangements. Accrual accounting, often equated with "generally accepted accounting principles", was a metaphor for modernisation.

**8.5.2.** Others were not so sure. In 1991 GoM had rejected the proposal of a modified accrual system that had seemed quite alien to their Napoleonic tradition, and the Carlsson/Cavanagh and Steen/Åström reports endorsed this rejection. They recommended getting better fiscal control by inclusion of off-budget revenues, ensuring more predictable flows of resources to spending agencies, and getting accounts and financial reports more up to date. For all these priority goals, in our view, cash accounting would have been sufficient[67]. An attempted transition to accrual accounting, even if phased in gradually, would have enlarged the scope of the project, diffused the reform and taken the focus off priorities.

**8.5.3.** Though accrual accounting concepts have become more familiar over the last decade, they are still far more preached than practised. Even the governments of Portugal and Denmark, for instance, still use a cash basis. The cost and risk of implementation in countries lacking even basic cash accounting capacity would be high, inevitably increasing donor dependence, while the benefits, in the near absence of systems of performance measurement, would be slight. Though international standards such as those of IMF-GFS and IFAC-PSC are built primarily on an accrual base of accounting, in the last few years it has been recognised that the great majority of developing countries are a long way from implementing accrual accounting, and that its advantages over reformed cash accounting are realisable only in a relatively sophisticated and performance-oriented environment.

**8.5.4.** No developing country government has yet successfully implemented accrual accounting, even countries with large numbers of graduates and accountants in public service such as India and Sri Lanka[68]. The present "accepted wisdom" of many World Bank FM specialists and leading figures in IMF Fiscal Affairs Department and the development community is that accrual accounting needs careful planning and phased implementation over the medium to long term in a developing country, and

[66] The accounting standards of INTOSAI (an association of state audit bodies) were sometimes suggested as the best available, but they were not very usable. Similarly, the standards of the Government Accounting Standards Board, which are framed for US local authorities and municipalities, are not very relevant to the needs of Mozambique. IFAC has recently issued a government accounting standard for a pure cash-based system (IFAC (2003) Cash-based IPSAS, Financial Reporting under the Cash Basis of Accounting, March). The present Mozambique State General Accounts do not meet this standard. This would be an appropriate intermediate goal on the path to full accrual accounting. See IFAC website: www.ifac.org

[67] It was held that accrual accounting would require the inclusion of 'off-budget' items, without recognising that cash accounting standards equally require that they be brought to account. Similarly, it was held that only accrual accounting could record non-cash changes to assets and liabilities such as revaluations. In fact, many countries handle such changes in separate systems outside the double entry. It is of course better to integrate all transactions, cash and non-cash, into a single framework, but viable options using a cash-based system were not sufficiently considered.

[68] An internal evaluation of the Project suggested that slow progress, especially on reforms requiring conceptual leaps, was due to a lack of graduates rather than a lack of accountants (Slunge and Lennartsson, 1999). In our opinion, it was due to a lack of both: the supervision of preparation of accrual accounts and their use by managers requires special training of both categories of staff, and sufficient numbers of academically qualified staff is a pre-condition of such training.

that most of them need first to get their cash-based systems providing timely and reliable data, and to build up accounting, IT and management capacity[69].

**8.5.5.** A broader criticism was made by the World Bank Public Expenditure Management Review[70] that looked at the SISTAFE plans as they stood at that time (SISTAFE 1). It said: "*Before embarking on a new reform process, the authorities should first address the basic problems facing the current system*". We agree. The world is full of examples of Integrated Financial Management Information Systems that have failed, not because of failures in IT, but failures in the underlying business processes. The review recommended an incremental approach over several years, and this was also the MPF preference. In our meetings with senior MPF officers, the stress was laid on gradual reform, i.e. step-by-step reforms that could more easily be comprehended and digested.

**8.5.6.** Having said which, it should be observed that by 2002, under pressure from heavyweight donors, MPF had recognised the inevitability of major changes in their FM processes (even if there was incomplete understanding or commitment to SISTAFE 1 and MPF remained open to an alternative reform path). SISTAFE 1 included not only a change to accrual accounting, but also the single treasury account (*conta única*). This was a far more useful and important reform, and a correspondingly difficult one, since this would strike at the multiplicity of bank accounts (an estimated 12,000) and reduce opportunity for corruption by closing down most of them and pooling the rest, either virtually or by real overnight transfers of balances to the centre. Subject to agreement with the banks (many of which depended on this liquidity) and with donors (many of whom were unwilling to allow any 'commingling' of their funds with general GoM funds), this reform would potentially reduce public borrowing and debt charges.

**8.5.7.** One lesson to be drawn is to avoid placing undue importance on concepts such as accrual accounting, or investing them with magical powers of solving all the problems of mismanagement. There is no panacea: each issue has to be addressed individually in the national context and feasible solutions found.

**8.5.8.** The experience also suggests that a single bilateral donor cannot expect to remain in a central, quasi-monopoly role in core areas of public management such as public accounting, particularly under the modern paradigm of donor-coordinated direct budget support and reform funding. Few donor agencies were interested in the technicalities of budget management systems until their crucial role in providing fiduciary assurance became clear in the late-1990s, at which point they became impatient for rapid improvements[71]. Better communication between the project and other donors may have prevented some misunderstanding, but communication requires two parties. Similarly, greater compatibility of the personalities involved would have helped, but perhaps would only have delayed the inevitable.

[69] See, e.g. Allen Schick (1998) Why Most Developing Countries Should Not Try New Zealand's Reforms, World Bank Research Observer, February; Jack Diamond (2002) Performance Budgeting – Is Accrual Accounting Required? IMF Working Paper 02/240 (Answer, yes, but only in the context of a sustained performance management initiative); and IFAC (2002) Transition to the Accrual Base of Accounting: Guidance for Governments and Government Entities, Study 14, April.

[70] October 2001, Annex 6.

[71] The need for long-term donor commitment and patience is becoming better appreciated in the donor community. See, for example, the forthcoming report on a World Bank Course on Capacity Building in Public Financial Management, Washington DC, 18–19 March 2004.

# 9. Conclusions and Recommendations

## 9.1. This Section

**9.1.1.** The purpose of this section is self-explanatory. Given the distinct different parts to the project (existing system and new accounting model), there are different conclusions and measures of achievement and we have tried to draw conclusions accordingly.

## 9.2. Starting Point

**9.2.1.** This project started a long time ago. A lot has changed in Mozambique. There have been big changes in the donors: in their expectations, in the solutions advocated, and in the emphasis placed on PFM. There is perhaps too, a better understanding of the issues surrounding PFM reform.

**9.2.2.** To put the project in perspective we have highlighted the weaknesses that existed in the early 1990's. There was a lack of political process in budget presentation, no report of accounts and capacity weaknesses that effectively meant the system had lapsed. In 1996 the WB FMR[72] recognised that reform was "*going to be an effort extended over a number of years that would have to build incrementally in line with limited government capacity… [it is] critical that this should be a genuinely collaborative exercise, with full participation and ownership on the side of the GoM*".

## 9.3. Efficiency, Effectiveness and Economy

**9.3.1.** This was always the innate philosophy of the Sida project and, from that perspective, the project got a lot right in recognising:

(i) the long term nature of what was being embarked upon – embedding new systems and building capacity are long term processes;

(ii) the essentially political nature of such reforms;

(iii) that ownership was an essential element;

(iv) but that political capacity and will was weak;

(v) that many of the modernisation approaches (programme and performance budgeting, MTEF, introduction of complex computerised accounting packages – now promoted as standard but where the record of achievement elsewhere is mixed), were not going to be achieved with the then capacity of limited understanding of simple budgeting, few accountants and a lack of computer literacy;

**9.3.2.** It is difficult however, to judge effectiveness[73] in the normal sense, i.e. against what the project set out to do and by the measures it set itself. This is because the long-term objective of the project (i.e. the alignment of managing public resources with meeting policy objectives), was too far removed from the activities and outputs, at least for the first half of the review period. Further, the outputs were loosely defined and not given verifiable indicators or a clear time line of achievement. This means that, whilst broadly the outputs have been achieved (again, for the first half of the review period), it cannot readily be concluded that the project has been effective. The project design should perhaps, have been based

[72] Fiscal Management Review, Stage One Status Report, The World Bank, 28 June 1996.
[73] *Effectiveness*: the extent to which objectives have been achieved.

more on a sound institutional assessment of capacity, the institutional environment and incentives to reform[74], and then more precisely defined.

**9.3.3.** For the same reasons it is even more difficult to judge in efficiency[75] terms. In economy[76] terms, we have been given the project costs broken down by year and by component[77]. Therefore, in straight input cost we can determine that these are reasonable when compared with norms for the provision of long term expatriate advisers. Further, we can assess that there was no obvious wasteful over-resourcing or duplication of resource and that the consultants have been of high calibre (at least for the later phases of the project). However, when combining these terms, making a value-for-money judgement is more problematical because value must be linked to efficient output. It is perhaps necessary to look at the project in absolute terms, at what has been achieved and over what time.

## 9.4. Achievements

**9.4.1.** Ignoring, for the moment, some of the controversy surrounding the last phase of the project, there is a solid list of achievement. Not all these changes are attributable to the SFMP solely but the present situation at MPF is significantly improved and the Sida support enabled much of the change. We have attempted to evaluate the overall impact from 1994–2003 in terms of reduction of risk to public funds, i.e. the risk they are not used for approved purposes in accord with the budget (the major focus). This shows a significant reduction of risk (see appendix E).

**9.4.2.** What it achieved in output terms (listing only the major outputs) was:

- a documented public accounting system with system/training manuals;
- a new frame law for budget and annual account (15/97) together with new classifiers (decree 25/97);
- a MPF training department, equipped with strategy, policy and procedures;
- a major training programme covering inter-alia, budget, accounting, classifiers, use of computers;
- computerisation of key functions within the system, including budget execution, salary, pensions, state general account and quarterly reports;
- in 1998 (and subsequent years) presentation to the supreme audit institution and parliament of state accounts (for the first time since 1975);
- quarterly budget execution reports from 2000;
- a modernised accounting model, chart of accounts and new law in 2002.

and in outcome terms:

- enhanced human capacity within MPF (and beyond);
- a platform for change and modernisation including introduction of an IFMIS.

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[74] There was an early Swedish/Dutch study, which we have not seen. We have not seen any other studies that discussed these issues. The June 1993 plan of operation was translated into the January 1994 inception report without any obvious process, but in itself is not a rigorous project plan.

[75] *Efficiency*: the maximisation of output relative to input – the extent to which objectives are achieved at minimum cost.

[76] *Economy*: the avoidance of wasteful or unproductive expenditure – the extent to which resources used are minimised.

[77] Although it is uncertain how accurate this component breakdown is; for example, how the costs of the team leader have been allocated across the components and what volume of short-term inputs are included.

## 9.5. Pace of Achievement

**9.5.1.** However, if these achievements are widely recognised, it is perhaps, the pace with which they have been achieved for which the project has come in for some criticism[78]. This is very difficult to measure because it has been variable over the project period and because of mitigating factors outside the project's control.

**9.5.2.** Seen as a capacity building programme, supporting a general direction or incremental improvement over time, then a positive judgement can be made on the list of achievements. Seen as a modernization project with hard outputs to address the weaknesses identified, then the project cannot be seen so favourably. The CFAA analysis is stark, categorising the system as weak in absolute terms. This has increased external pressure from the donors (of course, the work on the existing system was only intended as interim and the project was well advanced in implementing a modern system), and it is in this light we suggest, that others have made judgements.

**9.5.3.** Whilst we have tried to put it into its context we must conclude that progress was slow, particularly during the first three years under review (phase II, 1994–96 – see Figure 1). It is difficult to see why this was so but in the following paragraphs we summarise what we believe were contributory reasons.

## 9.6. Project Management

**9.6.1.** A major reason we put forward for this is in the overall project management. By this we mean not the day-to-day activity management but project lifecycle management, including diagnostic, design and appraisal and monitoring.

**9.6.2.** There are risks inherent in Sida's aid philosophy. The risks lie partly in the potential conflict between achieving results and close, long-term partnership. If this project was internally owned it was not internally driven (and Sida's efforts to drive it were constrained). For this there may have been several reasons including, partly, because MPF had chosen a cautious, gradual approach and partly because some of the concepts of reform were alien to their public finance tradition. We posit that project design must address these risks through more rigorous project management than was achieved, particularly in the early phases, whereby there would have been:

- a thorough institutional assessment conducted;
- at least the first stage/phase designed in detail;
- clearer definition of purpose, outputs, activities and verifiable indicators (this improved in later plans);
- a clear quality assurance role (to strengthen Sida's assessment of the project and their monitoring role).

**9.6.3.** In emphasizing input and output and more rigorous or detailed planning we do not mean there is an easy answer. What we are saying about the project management is that it is difficult to bring about improvements if there is vagueness about plans in terms of activities and outputs and the timeframes within which these will be achieved. Certainly it is difficult to measure progress. It also gives the potential for drift and slower progress than might otherwise be the case. This statement is not inconsistent with partnership and ownership. By more rigour in planning we do not necessarily mean progress at an accelerated rate or at a planned rate that the recipient does not accept. Rather we agree that the recipient should "own" the plan but there should be greater clarity within it in order that:

[78] Both internal and external.

- what is being signed up to is clear;
- this clarity improves communication and understanding (helping to ensure it is fully owned); and,
- that progress against the plan can be better measured and remedial measures taken as necessary.

**9.6.4.** There also appear to be risks within the twinning concept (in this case RRV and ESV). There are issues of incentive, potential conflict with their prime Swedish public sector role and issues of capacity and/or suitability for the prime contractor role, particularly in countries like Mozambique with a language issue. This example suggests that a better model might be that which pertained in the final phase: a private sector contractor possibly providing more responsive contract management, with RRV/ESV providing important technical backstopping and resources for short-term assignments.

**9.6.5.** We also describe how we feel the balance of incentives within the project may have favoured the status quo ante, rather than results. Review points with a more rigorous process and less propensity to roll over the project into its next phase would have helped to mitigate these risks.

## 9.7. Institutional/Organisational

**9.7.1.** If tighter project management arrangements might have assisted it would, nevertheless, be incorrect to judge the project in isolation from its institutional context. It was closely integrated within MPF and there were a number of factors inherent to MPF that affected its progress.

*Ownership and commitment*

**9.7.2.** MPF exhibited caution from the start, determining that changes should be gradual and incremental. There appear to have been a number of other reasons for resistance to change, particularly in the early phases of the project:

- degraded capacity, lack of understanding and fear of change;
- managers reluctant to expose lack of ability, ignorance or to allow their "empire" to be threatened;
- lack of clear lines of responsibility and formal project management structure;
- absence of external pressure (before the new aid paradigm brought more focus);
- need for wider institutional reform in the MPF.

**9.7.3.** Some of these issues are expanded upon below but we would not conclude there was lack of commitment (it is worth remembering that this project started before great external pressure for change). Rather, in the first half of the period, 1994–98, the project was highly participative and making (slow) progress towards producing the first state accounts for 25 years.

**9.7.4.** However, we have to question the ownership from 1999–2002/3. Whilst the commitment to reform continued and indeed strengthened, reflecting the external demand for change, it is not clear that there was full acceptance of the implications of the new accounting model proposed. We are unable to determine if the dramatic switch in approach (from SISTAFE 1 to SISTAFE 2), was precipitated solely by external pressure, but we are of the view that the move to accrual accounting and the emphasis on the management accounting needs of the spending departments, rather than the exercise of control, was a priority of the Swedish model not fully accepted within MPF. Also, the intention to use packaged software may not have been fully accepted.

**9.7.5.** This interpretation suggests that MPF had agreed the plan of operations for this period and passed the 2002 law, showing apparent understanding and commitment[79] but that the full implications

[79] Consistent with the overall government programme for reform of public administration – see appendix G.

were not necessarily clear to them or accepted in full (or accepted by all). This is paradoxical. MPF had both (defacto) embarked on the reform programme *and* did not have full acceptance or sufficient insight! There is perhaps a link here to the change of status of UTRAFE (see paragraph 3.2.19) and the lapse of the technical groups.

**9.7.6.** On the question of whether there was external undermining of Mozambican ownership we find ourselves unable to comment (or to be certain) whether this was so or what form it took. It is apparent that there were moves to reduce the Swedish influence and clear that pressure from IMF (and others) was instrumental in the changes to the model but it is not clear if the external pressure was the sole reason or whether MPF took the opportunity to move the reform towards where they saw their priorities. Certainly we received comment from some sources that suggested an incomplete "buy-in" and some concerns with the SISTAFE 1 approach.

- the COA was not considered appropriate (it was for the private sector);
- the Swedish project presented ready made [IT] solutions (rather than having these worked up in collaboration);
- accrual accounting was not appropriate (implemented fully in only a few developed countries);
- the SISTAFE 2 MPF management structure is more in control;
- SISTAFE 2 is more sustainable and being developed at a lower cost.

**9.7.7.** Whether or not one agrees with these points or whether these views were widely held, it is nevertheless, evidence that, despite progress on SISATAFE 1, [part of] MPF had reservations. We think this is more than just misunderstanding over the interventions of the external Swedish consultant (see paragraph 8.4.4 above), although that cannot have helped. There may have been cultural/relationship reasons why MPF could not tell Sida why they did not fully "buy" the model.

*Organisational and management capacity*

**9.7.8.** The MPF structure is highly vertical, with functional "silos" and a lack of resource to tackle cross directorate, strategic, policy and change management issues as a fully functioning organisation[80]. This weakened MPF's responsiveness to change. The SFMP reforms needed to be coordinated across a number of directorates but the structure had an impact on the degree to which the project could influence the strategic dimension, coordinate policy across the directorates and remove obstacles to achieving outputs.

**9.7.9.** MPF management in terms of project management and integration could have been improved. A project board or steering group arrangement had been proposed in 1994 but had not become operational. On a day-to-day basis the project team did find a way to resolve (some) cross-cutting issues. Some success was achieved with the instigation of the technical boards providing a forum for discussion of technical issues and some coordination across the directorates. However, we would argue that the project should have been repositioned higher up the MPF's organisational structure. This was eventually recognised with the creation of UTRAFE, a decision to which the project contributed. The current UTRAFE formal project structure (project board/steering committee internal to MPF), shows a management that, as a result of the SFMP experience, better understands and accepts what is involved in major change.

*Institution/organisation building*

**9.7.10.** The ministry had extremely low levels of absorptive capacity. It was concern over the demands placed on this capacity, centrally and provincially, which we believe to have been a major reason

[80] Issues now being addressed within MPF's reform strategy.

for the resistance to change. The extensive training programme undertaken over 10 years reflects the need for building human capacity.

**9.7.11.** We conclude that the project made an important contribution to organisation building in the:

(i) experience and confidence gained during reform efforts from 1994 onwards (although more evident from 1997 onwards). This was instrumental in assisting MPF articulate its reform strategy and understand what would be involved in implementing major reform.

(ii) opportunity and support given to the development of individuals;

(iii) support given to the training department;

(iv) volume of training provided.

**9.7.12.** However, it is questionable whether MPF currently have the capacity to plan, manage and implement a programme of large-scale reform work. We comment on the improvements to capacity brought about by the project (section 4.4 and paragraph 6.4.5) but suggest that the SWAp arrangements will need to strengthen management capacity further and provide financing for outsourcing of planning and design inputs.

## 9.8. Support Components

*Training*

**9.8.1.** In all the documentation training is described as a "support" component but it is arguably the activity that has had the greatest impact. The volume delivered was significant. It built human capacity that has been the platform for effectiveness and speed of implementation for later reforms.
Closely integrated to MPF the project helped to create and build the capacity of the training department (thus institutionalising the approach).

**9.8.2.** More negatively the impact of training was reduced by lack of HR strategy and policy and the project was unable to bring about improvements in this area.

*Information technology*

**9.8.3.** Also seen as a support activity, the IT component, without producing complex integrated automation, provided important tools for data accuracy, the streamlining of processes and for the control of budget execution. Constraints were met in bringing in and keeping capable IT resources. We feel some form of IT strategy document should have been produced[81] and more comprehensive policy and guidance could have been laid down for the IT management, for example security and disaster recovery. Nevertheless, together with the training this component provided important modernisation to the capacity and helped establish an IT culture within MPF.

## 9.9. Accounting Models

**9.9.1.** The first half of the evaluation period was about reinstating the existing accounting arrangements and making it effective. We conclude that this was the correct approach. It was non-controversial and saw important improvements.

**9.9.2.** The second period however, was much more involved. We conclude that SISTAFE 1 was feasible and operable. In our opinion though it was a lot for MPF to "swallow" and would have been better

[81] Although it is recognised that this would have required articulation of an MPF business plan, something that MPF may not have been in a position to produce.

presented as a phased programme over several years. No doubt a sustained implementation programme and training would have been implemented, something for which the project had demonstrated capacity.

**9.9.3.** An unwritten question contained within the TORs was whether the project was trying to impose a uniquely Swedish model. In fact SISTAFE 1 was an adaptation of the Portuguese national system and chart of accounts. Where the project may have placed particular emphasis however, was holding up an accrual standard as the goal at which to aim. To the Swedish project this was synonymous with modernisation and consistent with the long-term objective (goal) of the project.

**9.9.4.** However, no developing country government has yet successfully implemented accrual accounting and it is recognised that the great majority are a long way from implementation. Its advantages over reformed cash accounting are realisable only in a relatively sophisticated and performance-oriented environment. In our view[82], cash accounting is sufficient and does not preclude modernising improvements. An attempted transition to accrual accounting, would have enlarged the scope of the project, diffused the reform and taken the focus off priorities.

**9.9.5.** What is not clear is whether the intention was to phase in accrual accounting gradually and the pace at which that might occur, or whether the intention was to take the opportunity to put an accrual framework in place. This is important because the MPF preference was for gradual reform over several years. It is probable that there was lack of communication (exacerbated by personality incompatibility amongst key players) on this issue and that this contributed to misunderstanding.

**9.9.6.** Under external pressure, MPF had recognised the inevitability of major changes in their FM processes. SISTAFE 1 included not only the accrual accounting framework, but also the single treasury account (*conta única*). This would have been an important reform, one now being realised under SISTAFE 2.

## 9.10. Coherence and Relevance

**9.10.1.** We have concluded that for the first half of the period a logical set of components made up a coherent programme that was highly relevant to the need. Elsewhere in this report we highlight areas where we feel the project could have made more impact or achieved the same results more quickly.

**9.10.2.** Today, experience suggests that attempting to tackle a technical reform of part of the PFM system (such as budget preparation and execution), might be regarded as too narrow. Projects are now conceived more holistically, with more comprehensive ambitions covering a wider scope, including institutional and management issues.

**9.10.3.** We have concluded the SISTAFE 1 development was also well conceived. However, whilst the approach addresses well recognised needs and is consistent with the long term objective of SFMP, the emphasis on the business needs of the spending departments and, particularly, the emphasis on accrual accounting does not appear to have been fully accepted as relevant to MPF needs. This may be largely a question of prioritisation with MPF stressing budget control.

[82] Based on the accepted wisdom of many World Bank FM specialists and leading figures in IMF Fiscal Affairs Department and the development community generally.

## 9.11. Sustainability

**9.11.1.** Of all the donor interventions within MPF, bilateral as well as multilateral, we believe it likely that this Sida project has delivered the most lasting achievement. It has enabled a working system, strengthened the law and regulations and built human capacity. This has provided a platform for further reform.

**9.11.2.** By definition the termination of the second part of the project and the changes from the SISTAFE 1 to SISTAFE 2 mean that an important element of the project has not been sustained. Nevertheless, SISTAFE 2 has built on SFMP and SISTAFE 1.

## 9.12. Future Support Areas

**9.12.1.** The closure of the project has left unsupported several areas ready for assistance. The TORs require this report to make recommendations for future support needs for MPF. The following areas were suggested/discussed during the interview phase with MPF and appeared to have wide support:

(i) Integrated human resource management and payroll system. Payroll represents 80% of budget and is a priority to get under control. Payroll systems exist but not integrated to human resource management. This goes beyond an information system and has an institutional development dimension, with several policy decisions needing to be made to clarify the HR management;

(ii) Pensions system and payments;

(iii) Work on HR policies, job descriptions and the need for a staff appraisal system in MPF. This would extend into pay, pension contributions, career progression;

(iv) Whilst SISTAFE 2 is providing training it is said to be insufficient and the question is how the training in the new project is to be extended? The suggestion was for another programme of training for people in MPF (as this was one of the achievements of the project);

(v) Some form of continued support to DNCP (via UTRAFE);

(vi) Debt management – need for funding for the introduction of CSDRMS 2000+. We would suggest this need would extend well beyond software funding to assistance with debt management (in technical terms) and to the institutional dimension;

(vii) Organisational development for CPD. It is understood that this agency is to have a vital support function for the SISTAFE 2 development. It is important that the agency has a sound commercial agency function and is able to compete with the private sector for IT personnel.

## 9.13. Overall

**9.13.1.** If overall this conclusion section sounds too negative it is not intended to be. Over the years Sida's support has been sustained, patient, persistent and committed. Sida worked hard to ensure the project was integral to the MPF, strong on ownership and participative. In this they were successful. Close working relationships and trust were established. This participative approach extended into the technical groups providing an essential forum for cross-directorate discussion and coordination, covering everything from the law and regulation to long-term plans of operation to the shorter term monthly activities[83].

[83] Earlier comments may have suggested that we had underestimated the value and effectiveness of these groups. Our point was that the interface in project management terms and at a higher level of management within MPF, should have been more formalised.

**9.13.2.** A very positive assessment of the departing team of advisers was given, being described as of high calibre, dedicated and supportive. The relationship with the Embassy was appreciated and its supportive approach particularly remarked upon.

**9.13.3.** The appreciation of the training component was particularly widespread and its impact significant. Measured as a capacity building project the achievement is high.

# 10. Lessons learned

**10.1.1.** Government commitment is a primary critical success factor, so in this section we put it first. By this we do not just mean an acceptance that improvement is necessary and a willingness to undertake reform. Just as important is the ownership of the type of reform and the prioritisation[84].
This project worked patiently for several years with existing systems; mapping, documenting, streamlining and training. This was invaluable in creating human capacity. We would suggest however, that the very close working relationship and trust that existed between MPF and Sida did not preclude a different perception of approach and prioritisation with, particularly in the second half of the review period:

(i) Sida emphasising management accounting at the spending department level (and by extension accrual accounting);

(ii) MPF having a different perspective and tradition, prioritising budget execution control at the centre (and generally a more gradual, incremental programme of reform, recognising that accrual accounting was beyond current capacity).

**10.1.2.** Whether or not the change from SISTAFE 1 to 2 came about from incomplete ownership or from external pressure, there is also the issue of the degree to which an organisation has ownership/commitment: is it just at ministerial level, shared by some or all of the senior management and extending to middle management? It is this that can make a change programme so intractable and why we would suggest that the best prospect for success and lasting improvement is for a project to fit within a strategic and business planning process, via which the reform programme becomes integral to the organisation (and beyond).

**10.1.3.** The strategic and business planning should be comprehensive, addressing technical reform issues and institutional/organisational issues such as business purpose and functions, structure, management, HR policies, training etc.[85] Ideally an IT/IS strategy should further build on this strategy by developing the implications for systems and communications. The government plan should be based on a comprehensive diagnosis of the nature of the problems. A sequenced plan should be developed. Any donor interventions should also have a clear problem analysis. A proliferation of donor interventions should be avoided. In this example:

(i) the activity from year 1994 was, de-facto, based on the requirements of MPF (albeit not formally articulated as an overarching strategy/plan);

[84] Here we try to distinguish between commitment (a recipient government that accepts, possibly under pressure of donor expectation, the inevitability of reform), and ownership (fully "buying in" with a will and accepting of the scope, priority and pace of reform).

[85] We make this point despite concern about the "grand reform approach" seldom yielding the results expected. A comprehensive strategy/plan does not mean that everything has to be addressed at once.

(ii) several other donor interventions do not appear to have left a sustainable output, whereas the Sida project made important advances;

(iii) the later phases of the project attempted to be complementary to the government strategy but at some point the philosophies of approach appear to have diverged.

**10.1.4.** This also implies a high-level management structure and resource that can address and implement, dealing with the change issues within reform. The creation of UTRAFE was a development that should have occurred earlier. Projects should have a formal project board. A programme should have a high level steering committee. The SFMP had some success with the technical groups but we believe this should have been more formalised.

**10.1.5.** The possible differences between MPF and Sida in the final stage of this project reinforces the need for solutions to be specific to the country, reflecting the law, tradition, capacity, processes and informal rules that apply.

**10.1.6.** It may take the combined pressure of donors to overcome any resistance or delay and move reform up the agenda to ensure that the donors concerns and expectations are addressed. The experience also suggests that a single bilateral donor cannot expect to remain in a central quasi-monopoly role in core areas of public management such as public accounting, particularly under the modern paradigm of donor-coordinated direct budget support. Having said which, it would be unfortunate if a donor were to be precluded from identifying and pursuing initiatives and there is room for opportunistic interventions that address specific issues (as long as they are coordinated and fit within the overall strategy).

**10.1.7.** Multi-donor interests must be harmonised and coordinated both between the donors and with the government. The disputes that characterised the later phase of this project were not edifying. Donor coordination (and cooperation) in similar future projects would need to be significantly improved. Lack of in-depth technical understanding contributed to the difficulties. We would suggest that donor support should:

(i) be placed behind a comprehensive government owned PFM reform strategy;

(ii) support the PFM strategy directly (with projects) or indirectly (with funds);

(iii) ensure the quality assurance is set up as early as possible in this process to ensure donors have full understanding of the issues.

**10.1.8.** It has been pointed out that the creation of UTRAFE and the pool funding arrangements were, indeed, steps in the development of a SWAp to PFM reform, implying that MPF should take on full responsibility for planning, steering, managing, implementing and monitoring the reform including the procurement and management of all external inputs. This would have required a careful analysis of MPF's actual capacity to do so including a systematic approach to building/improving MPF's capacity in this respect. Both the donors and MPF would have benefited from such an analysis and a better understanding of what was required.

**10.1.9.** In the meantime we question MPF's capacity to plan, manage and implement an ambitious, large-scale programme reform work and suggest that the SWAp arrangements will need to strengthen management capacity further and provide financing for outsourcing of planning and design inputs.

**10.1.10.** A risk that needs to be recognised in this scenario though, is that the combination of a project implementation unit with a donor steering committee could undermine ministry ownership, by taking responsibility from senior managers not directly involved in the project/programme.

**10.1.11.** Placing undue importance on concepts such as accrual accounting, or investing them with magical powers of solving all the problems of mismanagement should be avoided. There is no panacea: each issue has to be addressed individually in the national context and feasible solutions found.

**10.1.12.** This means that the advocacy of many of the modernisation approaches (programme and performance budgeting, MTEF, introduction of complex computerised accounting packages – now promoted as standard but for which the record of achievement elsewhere is mixed), needs to take account of capacity. They are not going to be achieved in an environment of limited understanding of simple budgeting, few accountants and a lack of computer literacy.

**10.1.13.** Incentive issues, in the widest sense, within a project and within the overall ministry strategy need to be addressed. Stakeholder analysis as part of project design and periodic review may help to identify incentive issues.

Crown Agents
30 April 2004

# Appendix A

## Terms of Reference

### 1. Background

In 1987 a joint Dutch/Swedish mission was invited by the Ministry of Finance to make an analysis of the financial management system in Mozambique and to suggest areas for external assistance.
The team's report – "Assistance to the Ministry of Finance" – laid the foundation for an agreement between Mozambique and Sweden to the effect that Sweden through Sida/Asdi would allocate resources for the contracting of personnel specialized in public sector budgeting and accounting.

The request came in the context of the country's abandoning of attempts to institutionalise a centrally planned economy, its adherence to the International Financial Institutions in 1986, and its opening to the introduction of a market economy. The Minister wished to reform and upgrade the Ministry to adequate it to managing public finances in a market economy, making use of a bilateral agency with some experience in this area.

Following a tender procedure and an appraisal visit by the Mozambican Minister of Finance to Sweden, a contract was signed between Sida and Swedish Project Management Consultants (SPM) and the required long- and short-term personnel were recruited and the project started up in January 1989.

Technical assistance for this purpose has been provided by Sweden to the Ministry since then.
Its provision can be divided into four management phases:

1988–1993 The initially contracted private consultancy company SPM assisted in improving the budgeting system and initiated work on developing and introducing a new accounting system. The Budget Project, at that time oriented only to activities at central ministe-rial level, was broken off as the Ministry sought a broader cooperation with Sweden and also judged that the proposed double-entry, modified accrual model, using a modern computerized accounting application, was too advanced for the time being.

1993–1998 The Swedish National Audit Office (RRV) took over the project (now named the State Financial Management Project, SFMP) and broadened the scope to include the three fundamentals of financial management: Budgeting, Accounting and Audit. This included the preparation of a new Budget and Accounts Frame Law (1997), upgrading and computerising the existing accounting system (including Budget Expenditure Control, State Payroll and State Pension system),and developing the area of internal auditing. The previously separate Sida-financed staff training program, FORMFIN, was extended and integrated into the project. Within MPF, the project was initially placed formally under the management of the National Directorate for Budget (later merged to become Planning and Budget) and from 1998 under the National Directorate of Public Accounting (DNCP), though over time it served most of MPF's Directorates.

1998–2001 As a result of the internal reorganisation of the RRV, from July 1998 the newly created Swedish National Financial Management Authority (ESV) took over responsibility from RRV for the central project component, now more rigorously focused on public accounting and related training; while RRV continued to support the area of internal auditing, within the frame of the project agreement.

2001–2003 In September 2001 ESV relinquished operational management of the project, which was put out to tender and won by a private consultancy company Swedish Institute for Public Administration (SIPU International), with ESV providing advisory support; and RRV continued to support internal auditing.

Condensing the various aims and objects expressed for the SFMP, its principal objectives can be expressed to have been:

– improved and reformed budgeting, monitoring and internal control

– increased financial efficiency, transparency and accountability of the government.
(quote from PlanOp of 1993-04-30, RRV)

The long term objective, that was initially adopted for the Budget Project, is still valid. The objective is to improve the budgetary process in order to offer opportunity for political allocation of resources, and to build up capacity for management control, including evaluation of effects of activities covered by the State Budget.

To meet the technical and cultural demands of the project, the core long-term technical assistance team has been composed of a Swedish (Portuguese-speaking) team leader, core personnel from RRV/ESV, and experts who are native speakers of Portuguese or Spanish. Short-term consultants and management support have usually been drawn from a Swedish resource base, but also from Portugal.

During the course of the SFMP, several other projects supported by donors were introduced into the MPF with system development objectives. At least ten intervening donor countries/organisations can be identified during the ten years in issue (Sweden, DFID, EU, France, Denmark, Switzerland, Norway, World Bank, IMF, UNDP, GTZ). In core areas of relevance to the Swedish assistance the most important interventions were teams supported by DFID and UNDP in the National Directorate of Planning and Budget (DNPO) and by the EU in the National Directorate of the Treasury (DNT).

In 1998, as a response to strongly critical analyses of the state financial management system by the International Financial Institutions (IFI), ESV/RRVs team and the Ministry of Planning and Finance considered the ground to be ready for the start-up of a full-scale reform of the core financial management system. The work perspective broadened from central budget appropriation control to the development of a decentralized accounting model for the spending institutions, built on double-entry accounting using a standardized chart of accounts and a chart of object codes, thus building the future foundation for result-based management, grounded in program budgeting, and accrual accounting; without diminishing in any way the importance of the cash-based budget appropriation control.
The basic model presented in 1999 also included the development and implementation of a Government Single Bank Account system for payments. From 1999 to 2001, the project contributed substantially to the preparation of new legislation and an accompanying reform, including arranging international seminars, study trips abroad, international consultancies and the drafting of the new State Financial Administration Law and the attendant detailed regulations for a new financial management system (known as SISTAFE); the law was promulgated in February 2002 (Law 9/2002) and the regulations passed in June 2002.

As a result of the criticisms made in the CFAA, ROSC and PER in 2001, the eight budget support donors (G8) concerned themselves particularly with the issue of the reform of the FMS and called down consultancy services during the first half of 2001 to examine the proposals in process and help develop the FM model and plans for its implementation. The consultant, contracted by UTRAFE and financed by DFID, produced a model description that later served for extensive internal discussions and the preparation of the first draft Conceptual Model for the reform. At a meeting of G8 and IMF in December 2001 the same consultant presented his views on the ongoing reform preparation, considering it to be very uneven, with insufficient coordination between the National Directorates principally involved (Planning and Budget/DNPO, Public Accounting/DNCP, and Treasury/DNT), and with the recently established reform coordination unit UTRAFE unsupplied with the personnel and resources needed to be able to manage the coordination of a cross-cutting reform. In the view of the consultant the MPF was too thinly stretched to manage a national reform, and he proposed that the whole reform should be put out to tender for external execution.

The donors and IMF reacted with alarm. IMF thus called down a team in February 2002, which put together a confidential report stating that the reform was in preparation but under-coordinated and proposing the immediate allocation of an IMF coordinator to UTRAFE. This occurred in June, with G8 support, the primary task of the coordinator being agreed between the donors to be to draw together the Directorates and donor teams in the reform area and make a detailed action plan for the reform. The donors also appointed IMF's Res Rep as responsible for donor coordination. In July the IMF persuaded MPF to change the status of UTRAFE from a reform co-ordinating unit to a development and reform implementation unit, and notified the three core bilateral donors (DFID in DNPO, Sida in DNCP and EU in DNT) that they should phase out their support projects as soon as possible. The reform was at once redirected, initiating with a new draft conceptual model of an FMS entirely different and of a more limited input-related scope from the one thitherto in preparation. (No action plan was provided at this time).

This led to considerable conflict, closed by the Minister of MPF in October announcing that the MPF had decided to adopt the model newly proposed by UTRAFE, under the guidance of the recently appointed IMF adviser, appealing to all donors to support its implementation through a common pool fund, notifying the bilateral support donors that their assistance to the core reform areas should be closed down, and informing Sweden that the MPF's September 2002 request for three further years of support 2003–2005 was withdrawn. It was also announced that the SISTAFE law and regulations passed in 2002 would be put under review and amended to fit the new conceptual model.

In view of its long experience and deep knowledge of the Mozambican financial management context, Sweden suggested that its team be included as a central resource in the reform process. This proposal was refused and by the end of the year Sweden was limited to concluding an agreement with MPF that essentially removed the team from the SISTAFE reform and allowed for a year's phasing out over 2003. Included in the agreement was that an external evaluation of the project from 1994–2003 would be carried out during 2003, starting before the project closed down. The internal audit component was removed from the project and a separate three-year agreement was signed with MPF to allow its continuation. This component is not directly included in this evaluation.

## 2. Objectives, Purpose and Scope of the Evaluation

The purpose of the evaluation is to draw conclusions and lessons as to the methods, results and impacts of the SFM project over the period 1994–2003, to inform Sida, MPF, other donors, and other countries of the successes, failures, and difficulties experienced.

The area of financial management reform has become of particular donor interest and concern within the context of implementing Poverty Reduction Strategy Plans (PRSPs), transiting to budget financing of poverty reduction, and ensuring donor harmonisation along the principles of the OECD/DAC Rome Declaration of February 2003. It is evident that this will impel financial management system reform in many of the world's developing countries, and the lessons gathered from the experiences of long-term reform work could be of great use in this context.

Among the issues to be evaluated in this light are:

- the process, methodology and approach used in preparing for and implementing the FM reform
- the time frame occupied and the trade-offs between instrumentality and ownership
- the applicability and adequacy of the model proposed for the FMS
- the technical issues surrounding model choice and implementation
- the cultural, organisational and institutional frame factors defining the context of the FMS
- the role of bilateral and multilateral partners and the issue of reform coordination.

The evaluators should inter alia consider:

- Relevance: was the project focused correctly on the problems and weaknesses concerned?
- Effectiveness: to what extent did the project achieve its planned results and objectives?
- Efficiency: did the project achieve results with an economical use of time and resources?
- Coherence: did the project focus right and fit properly into on-going reforms and reform demands? how did the project scope and mandate evolve over time? was there enough integration and co-ordination with other related development efforts?
- Capacity building: did the project build the necessary capacity in the MPF and beyond? did it manage to restrain and/or compensate for staff turnover?
- Organisation building: did the project help build a "new" MPF as a functioning organisation?
- Institution building: did the project help set up the necessary "new" legal frameworks?
- Ownership: was the project organisation viable? did the project work to ensure Mozambican participation and decision? did it safeguard Mozambican ownership?
- Cultural adaptation: did the project take sufficient account of national and administrative culture?
- Appropriate technology: did the project ensure adequation between the technology used, developed, and proposed, and the needs, skills, and support services available?
- Quality: was the project in line with international standards on FM and was this too demanding?
- Sustainability: has the project had any sustainable effects? where would MPF have stood today had the project not been implemented? what are the implications of closing the project?
- Alternatives: were there faster, cheaper and/or better alternatives to reaching the objectives?

## 3. The Evaluation Assignment

The evaluators shall:

- carry out a thorough, independent and reliable evaluation of the SFMP 1994–2003 (excluding the internal audit component)
- identify and evaluate the products of the project
- examine and evaluate the work done on developing the national planning and budgeting system
- examine and evaluate the work done on computerising and developing the national accounting system
- examine and evaluate the work done on personnel training and development
- examine the choices of model and approach made in each area at each stage

– evaluate the selection and use of technology within the project, and its adaptation to the needs and capacity of the MPF
– consider the managerial and institutional insertion of the project in the MPF
– evaluate Mozambican ownership of the project, its proposals and products
– evaluate the constitution of the project and the project team and their suitability to the context
– evaluate the fulfillment by the project consultants of their terms of reference
– examine the role of Sida in project design, implementation and follow-up
– compare the proposals of the project and the current SISTAFE model and evaluate the applicability, feasibility, operationality and sustainability of the project's proposals in this light
– evaluate the adequacy of the project's proposals to international standards and demands
– evaluate the impact of the project on the institutional development of MPF
– evaluate the impact of the project on national financial management capacity
– identify and comment possible unintended consequences and outcomes of the project
– make recommendations where relevant on future support needs and design for MPF.

## 4. Methodology of the Evaluation

In making its evaluation, the team should:

In advance:

– study the documentation made available by Sida
– prepare the programme and schedule of work and draft questionnaires and instruments.

In Stockholm:

– visit Sida and interview persons of relevance to the project (including ex-Counsellor Calle Svensson)
– visit SIPU International and interview persons of relevance to the project
– visit ESV and RRV and interview persons of relevance to the project
– in this process, ensure some interviews (direct or telephonic) with previous long-term and short-term consultants to the project.

In Maputo City:

– obtain, study and analyse the documentation and reporting of the project 1994–2003 as well as UTRAFE's SISTAFE documentation
– interview all members of the project team
– interview relevant counterparts at MPF, including at management level, at UTRAFE, and at DNPO, DNCP, DNT, DNPE and DNARH; IGF may also be included if considered pertinent
– interview responsible officers at the Embassy of Sweden
– interview the IMF representative and the IMF coordinator in UTRAFE
– interview the economists at DFID, Denmark and Norway
– telephone interview the previous EU economist, now in Lusaka
– consult other persons, ministries and organisations identified as relevant in this process.

In the Province of Maputo and/or Gaza:

– identify and evaluate possible impacts (if any) of the work of the project.

The project team should select and propose suitable work methods and schedules for discharging the assignment. Most of the work is predicted to be focused on the MPF. A short visit to a sector ministry and to a province should also be planned in to identify effects and impacts at these levels, if any.

## 5. Team Composition

The team should consist of at most four evaluators, of whom one will be selected by MPF and assigned to the team in Maputo.

The MPF evaluator shall have knowledge of MPF's structure and organisation, of the present Mozambican financial management system, and of the project, but should not have been directly involved in the management and regular operation of the project. A relevant higher education qualification is required.

The remaining (two to three) team members between themselves shall be competent to assess and evaluate in the following fields:

– financial management design
– financial management technology and IFMIS/ICT applications
– competence development in the public finance area
– institutional development in public finance.

Team members should have relevant higher education qualifications, experience of financial management development (including in developing countries), and demonstrated evaluation experience. They should be reasonably fluent in Portuguese or Spanish and competent to report in fluent written English.

One of the team members shall be identified as the Team Leader and shall ensure coherence in the coverage and reporting of the evaluation as well as coherent and integrated team operation, in particular as regards the inclusion of the Mozambican evaluator.

The team may in case of need attach a Swedish-speaking consultant to assist it in its work in Sweden.

## 6. Time Schedule

The evaluation should be initiated by the beginning of the fourth quarter of 2003. It is expected that:

– the external team members will need three working days each for initial preparation
– the external team members will use three working days each in Stockholm
– all team members will use twenty working days each in Mozambique
– the Mozambican team member may be engaged for a maximum of five more working days, before and/or after the main team visit, to collect and sort documentation and information, to organise the interview programme, and to write a contribution to the report
– each team member will spend a further four days in report drafting work
– the team leader will spend three further days in report compilation

– the team or part of it will regroup in Maputo for at most four days, to present and defend their report, and if necessary, to complete or revise it in accordance with presented factual data.

## 7. Reporting

Before leaving Maputo, the team should meet with and brief the Embassy of Sweden, providing a compact description of their work, findings and preliminary conclusions, if possible with a short written aide memoire.

The evaluation report shall be written in English and should not exceed 30 pages, excluding annexes. The format and outline of the report shall follow the guidelines in *Sida Evaluation Report – a Standardized Format* (see Annex 1). The draft report shall be submitted to the Embassy of Sweden in Maputo and to Sida electronically and in 2 hard copies each (air-/surface mailed or delivered) no later than 31st January 2004.

Sida and the Embassy shall within three weeks comment on possible errors of fact or significant omissions in the report. At the end of the three week period, the evaluators shall present the draft report to MPF and Sweden at a half-day workshop in Maputo. After receiving Sida's, the Embassy's and other participants' comments on the draft report, a final version shall be submitted to Sida and the Embassy, again electronically and in 2 hard copies each, no more than two weeks later.

The evaluation report must be presented in a way that enables publication without further editing. Subject to decision by Sida, the report will be published in the series *Sida Evaluations*.

The evaluation assignment includes the completion of *Sida Evaluations Data Work Sheet* (Annex 2), including an *Evaluation Abstract* (final section, G) as defined and required by DAC. The completed Data Worksheet shall be submitted to Sida along with the final version of the report. Failing a completed Data Worksheet, the report cannot be processed.

The evaluators shall ensure (and budget for) the translation of the final version of the report into Portuguese, and deliver it to Sida for possible publication and for distribution, no later than three weeks after delivering the final English version.

# Appendix B

## List of Persons Interviewed

| Name | Position | Organisation |
|---|---|---|
| Orlando D'Oliveira Comé | General Director | CPD |
| Thomas Thompsen | Economic Counsellor | DANIDA |
| Caroline Rickettson | Senior Governance Adviser | DFID, Maputo |
| António Mussa Inzé | Director, Provincial Planning and Finance, Nampula | DPPF |
| João Junior | Trainer, previous training coordinator, Nampula | DPPF |
| Manuel Juaniha | Head of IT, Nampula | DPPF |
| Milagre Joaquim Machava | Training Coordinator, Nampula | DPPF |
| Anders Ejdermark | Project Manager | ESV |
| Bengt Anderson | Director, | ESV |
| Peri Perrone | Resident Representative | IMF |
| Allan Gustafsson | Partner | Mapsec |
| Brito Bande Jorge Manhica | Financial Expert | Ministry of Education |
| Zacarias Jose Mazemby, | Head, Department of Finance, | Ministry of Education |
| António Sosa Cruz | Cabinet Estude | MPF |
| Armindo Matos, | Former National Director of DNCP | MPF |
| Augusto Siquela | Head of Information Technology Division | MPF |
| Carlos Cornelius Jesson Junior | Coordinator, UTRAFE | MPF |
| Carolina Goenha | Deputy National Director,<br>National Directorate of Accounting | MPF |
| Dr Laice | National Director of Treasury | MPF |
| Eduardo Filimone Nhampossa | Deputy National Director at DNARH | MPF |
| Gabriel Fabião Mambo | Deputy National Director of Treasury | MPF |
| Gilberta Dengo | Head of Training, DNARH | MPF |
| Henrique A C Gamito | National Director, National Directorate of Accounting | MPF |
| Jose Fondo | Adviser to the Minister on Budget (DNPO) | MPF |
| Luisa Lucas | Cabinet Estude | MPF |

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|---|---|---|
| Marcelino | National Director of Inspectorate General of Finances | MPF |
| Panza | Deputy Director, Directorate of Asset Management | MPF |
| Pianalda | Procurement, Directorate of Asset Management | MPF |
| Ramanio | National Director Directorate of Asset Management | MPF |
| Victor Manual Borges | Permanent Secretary | MPF |
| Anthony Hodges | Project Manager, FoPOS | Oxford Policy Management |
| Lars Ekman | First Secretary | Royal Norwegian Embassy |
| Goran Steen | Previously Head of International Secretariat, Swedish National Audit Office | RRV |
| Maria Lorenzo | Swedish National Audit Office | RRV |
| Stefan Sjölander | (Swedish Aid and Agencies Consultant) | SAAC |
| Bo Hammarström | Department for Democracy and Social Development | Sida |
| Calle Svenson | (previously Development Councillor, Swedish Embassy Maputo – 1997–2001 | Sida |
| Gun Eriksson Skoog | Department for Evaluation and Internal Audit | Sida |
| Hallgerd Dyrssen | Deputy Head, Department for Democracy and Social Development | Sida |
| Ingemar Gustafsson | Head, Methodology Unit | Sida |
| Stefan Dahlgren | Department for Evaluation and Internal Audit | Sida |
| Thomas Kjellson | Programme Coordinator for east and west Africa, Department for Democracy and Social Development | Sida |
| Anton Johnston | Economist | Sida, Maputo |
| Jesus Alfredo | Coordinator of Programmes | Sida, Maputo |
| Carla Sorneta | Consultant Training, SFMP | SIPU |
| Mikael Åsén | Team Leader, SFMP | SIPU |
| Rui Borges | Public Accountability Adviser II, SFMP | SIPU |
| Susana Taverna | Consultant Information Technology, SFMP | SIPU |
| Virgilio Fernandes | Accounting Adviser I, SFMP | SIPU |
| Finn Hedval | Manager, Financial Management | SIPU, Stockholm |
| Antonio Franco | Senior Country Economist | World Bank |

# Appendix C

## List of Documentation

| Date | Title | Author | Period Covered |
|---|---|---|---|
| 1881 | Regulamento Geral Da Contabilidade Publica Decreto | GOM | |
| Aug-89 | Promemoria – Contracting of the faculty of Economics | Johnston | 1989–92 |
| 1991 | Making Development Work – Guidelines and Framework for Sida Support to the Development of Public Administration | Dyrssen (Various) | N/A |
| Aug-91 | Advice to the Government of Mocambique on Accounting Systems | Carlsson and Cavanagh | 1991 |
| Oct-91 | Comments (by SFMP) to the (Cavanagh) Report | ? | 1991 |
| Mar-92 | Appraisal of Mozambique's State Financial Systems (Budgeting, Acounting & Auditing): Needs Analysis for Reform Support | Steen and Astrom | 1987–1992 |
| Mar-92 | Agreed Minutes: Annual Consultations… between Sida and the Ministries 2–19/3/92 | SPFM project | |
| Mar-92 | Promemoria – Telephone conversation with Luisa Diogo, budget manager at Ministry of Finance 10 Mar 1992 | Erik Aberg | 1992 |
| Apr-92 | Internal PM – Support to Mocambique: Budget and Audit project | Johnston | 1987–1992 |
| May-92 | Telefax, MINFIN Project | H Dyrssen | 1988–1992 |
| May-92 | Internal PM – Note of Meeting Luisa Diogo in London 28 April 1992 | Kjellson | 1992 |
| Jun-92 | Re Steen/Astrom "Appraisal of Mozambique's state financial systems" | Lars Rylander | 1989–1992 |
| Jun-92 | Synpunkter pa Steen-Astroms Rapport (Opinions on Steen-Astrom report) | Bo Hammarstrom | 1987–1992 |
| Sep-92 | Accounting Model for Swedish State Agencies | Swedish National Audit Bureau | |
| Jan-93 | What has been achieved in the budget support project at the Ministry of Finance in Mocambique | Stefan Sjolander | 1988–92 |
| Apr-93 | Plan of Operation | Anders Ejdemark, RRV | 1993—95 |
| Nov-93 | Capacity Building in Economic Management | UNDP | |
| Jan-94 | Inception Report for the State Financial Management Project at the Ministry of Finance supported by the Swedish National Audit Bureau financed by the Sida | | 1993–95 |
| Apr-94 | Minutas Acordadas (Minutes of Annual Meeting 11–22/4/94) | | |
| Jul-94 | The State Financial Management Project at the Ministry of Finance – A Summary of Reports | A Bretschneider | 1988–1994 |
| Mar-95 | Results 1988–95, Annual progress report 94/95 and plan of Operations 95/96 | | 1988–1996 |
| Apr-95 | Minutas Acordadas (Minutes of Annual Meeting 27/3–6/4/95) | | |
| Feb-96 | Promemoria – "Resultsanalysis Mocambique" | B Hammarstrom | 1989–1995 |
| Apr-96 | Minutas acordadas (Minutes of Annual Meeting 29/4–10/5/96) | | |
| Apr-96 | Annual progress report 95/96 and Plan of Operations 95/96 | | 1995–96 |
| Jun-96 | Mozambique Fiscal Management Review, Stage One Status Report | World Bank, Africa Region | |
| Aug-96 | Analysis of the Training Area in the SFMP | Bo Dahlstrom & Curt Henning, Swedish National Audit Office | |

| Date | Title | Author | Period Covered |
|---|---|---|---|
| Aug-96 | The Project Management Control System of the SFMP in Mozambique (revised 12/96) | Magnus Bergstrom & Erik Anders Ejdemark, Swedish National Audit Office | 1997–2001 |
| Sep-96 | Plan of Operations 1997–2001 | | 1997–2001 |
| Nov-96 | Plan of Operations 1997 | | 1997 |
| Dec-96 | Report to Sida in connection with the plan of operation for the years 97–01 | Bergstrom & Ejdemark | 1997–2001 |
| Jan-97 | Boletim da Republica (organisation of Min of Planning and Finance) | GOM | |
| Jan-97 | Plano de Operacoes 7/97–12/01 | DNCP, MPF | 7/97–12/01 |
| May-97 | Expenditure Management Reform Strategy | DNPO, MPF (World Bank) | 1997–99 |
| Jul-97 | Boletim da Republica (Framework Law 15/97) | GOM | |
| Jul-97 | Boletim da Republica (Decree 25/97 on budget classification) | GOM | |
| Sep-97 | Education Sector Strategic Plan 1997–2001 | Ministry of Education | !997–2001 |
| Oct-97 | MPF Functions and Budgetary Processes, Assessment of Necessary staff Reinforcement | Stefan Sjolander | |
| Oct-97 | Sobre a Cooperacao na Area da Admistracao Publica Entre a ASDI os Ministerios … (1998–99 Plan?) | | |
| Dec-97 | Central Government Finances 1996 | Swedish National Audit Office | 1996 |
| 1997 | Country Overviews – Sida | - | 1997 onwards |
| May-98 | Consulta Semetral de 1998 | | 1998 |
| Aug-98 | Diploma Ministerial 125/98 (organisation of MPF) | | |
| Nov-98 | Annual progress report 98 and Plan of Operations 99 | DNPO, MPF | 1998–99 |
| Dec-98 | Sobre a Cooperacao na Area da Admistracao Publica Entre a ASDI os Ministerios … (2000–02 Plan? | | |
| Dec-98 | Identificao dos ‘Off-Budgets’ e Mecanismos para a sua Integracao no Orcamento do Estadoo, Relatorio Preliminar Vol. 2 (Regulations on Ministry Own Revenues) | DNPO, MPF | |
| 1998 | Institution Building and Leadership in Africa | Wohlegemuth, Carlsson and Kifle | Various |
| Apr-99 | Diploma Ministerial no 47/99 (DNPO Internal Regulations) | | |
| Jun-99 | Reform of the State’s Financial Administration: Proposal for Basic Theoretical Concepts | Marta Sastre | |
| Jun-99 | Projecto de Gestao de Financas Publicas /ESV/ASDI | Marta Sastre | |
| Oct-99 | Internal Evaluation of the State Financial Management Project | Slunge and Lennartsson, ESV | 1988–1999 |
| Dec-99 | Conta Geral do Estado (State General Accounts) 1998 | GOM | 1998 |
| Oct 99 | Technical Assistance to the Ministry of Planning and Finance [GE] in Mozambique (Sida Evaluation 99/33) | Dag Arnes, Svein Jörgensen | 1988–1999 |
| Apr-00 | Macro Financial Support to Mozambique: Proposed Framework for Support, Draft Report | Report by Nordic Consulting Group for G7 Donors | |
| Aug-00 | Government Accounting and Interim Budget Development Projects in Tanzania | Anderson, Flynn, Harding and Maugham | 1986–2000 |

| Date | Title | Author | Period Covered |
|---|---|---|---|
| Oct-00 | Minutas Acordadas, Relatorios, Planos de Accao, Consulta Annual Sobre a Cooperacao ne Area … 3–12/10/00 | | |
| Nov-00 | Bedomnings Promemoria "Support to the Ministry of Finance and Planning in Mozambique 2001–2002" | Karin Schultz | 1988–2000 |
| Dec-00 | Bedomnings Promemoria "Support to the Ministry of Finance and Planning in Mozambique 2001–2002" | Karin Schultz | 1988–2000 |
| Dec-00 | Relatorio de Execucao do Orcamento do Estado (Budget Execution Report 2000) | DNCP, MPF | 2000 |
| Jan-01 | Boletim da Republica (Diploma Ministerial 16/2001 on organisation of DNARH) | GOM | |
| Feb-01 | Fiscal Transparency Report on the Observance of Standards and Codes | IMF-FAD | |
| May-01 | Accrual Accounting in Swedish Central Government | ESV | |
| May-01? | Internal accounting – Some Ideas | RRV | |
| May-01 | Treasury Reference Model | Ali Hashim & Bill Allan, World Bank Technical Paper no. 505 | |
| May-01 | Tender, Public Accounting, Mozambique | SIPU International | |
| May-01 | Plano Estrategico de Formacio do Ministerio do Plano e Financas (Strategic Training Plan) | MPF | 2001–03 |
| Jun-01 | Relatorio De Progreso Annual | | 1 Jan– 30 June -01 |
| Jun-01 | Classificadores de Execucao do Orcamento do Estado: Legislacao | DNCP, MPF | |
| Jun-01 | Boletim da Republica (Diploma Ministerial 103/2001 on organic classification) | GOM | |
| Jul-01 | Boletim da Republica (creation of UTRAFE) | GOM | |
| Oct-01 | Mozambique Public Expenditure Management Review | World Bank, Africa Region | |
| Nov-01 | Minutas Acordadas Consulta Annual 26–27/11/01 | | |
| Dec-01 | A New Financial Management System for the Government of Mozambique – Concept Paper (and TOR) | Allan Gustafsson | |
| Dec-01 | ESV Final Report | ESV | 1998–2001 |
| Dec-01 | SIPU Inception Report | Finn Hedvall (SIPU International) | 1993–2001 |
| Dec-01 | State Financial Management Project Mozambique –Final Report | A Ejdemark | 1987–2001 |
| Dec-01 | Mozambique Country Financial Accountability Assessment | World Bank, Africa Region | |
| Dec-01 | Mozambique's new financial management system – a discussion of some options | Allan Gustafsson | 2001 |
| Mar-02 | Sida's rating Scheme: Conclusions from the Pilot Project | Sida, Department for Africa | |
| Mar-02 | Ministry of Education, Financial Management Systems – Options for Reform | P.F. Murphy for DFID | |
| Apr-02 | Organigramme of MPF and presentation on SISTAFE 1 reforms | Mikael Asen | |
| Apr-02 | Best Practice in Capacity Building in Public Financial Management | Hakan Jarskog | |
| May-02 | Semi Annual Report Mozambique | Sida, Department for Africa | 1 May– 31 Oct -02 |
| May-02 | Disposocoes Gerais Comuns | ? | ? |

| Date | Title | Author | Period Covered |
|---|---|---|---|
| May-02 | Short term assignment on the accounting area of the SFM project | T Kjerf (ESV) | 2000–02 |
| May-02 | Training Programme for Accounting Development | A Ejdemark and T Ljerf | 2001–02 |
| May-02 | Country Procurement Assessment Report | World Bank, Africa Region | |
| Jun-02 | Relatorio De Progreso Annual – 1 Jan–31 March 2002 | | |
| Jul-02 | Are donors to Mozambique promoting corruption? | J Hanlon | 2000–02 |
| Jul-02 | Promemoria: Additional financing to Agreement A7209071, SFMP Support to MPF, 2001–02 | Anton Johnston | |
| Jul-02 | Chart of Accounts (English translation) | | |
| Jul-02 | Beslut – Additional financing to Agreement, State Financial Management Project Support to the Ministry of Planning and Finance | Belfrage, Johnston | 2001–02 |
| Jul-02 | Boletim da Republica (Diploma Ministerial 119/2002 on Regulations on DNT) | | |
| 2002 | Dossier Tecnico Pedagogico, Formacao 2002 | SPFM project | |
| 2002 | Manual de Rotinas e Procedimentos | SPFM project | |
| 2002 | Custos de Execucao: Programma de Formnacao, Relatorio de 2002 | SPFM project | |
| Aug-02 | Modelo De Plano De Contas | N/A | N/A |
| Aug-02 | Best Practice on Capacity Building in Public Finance Mangement in Africa – Experiences of NORAD and Sida | Andersson and Isaksen | |
| Sep-02 | Different features of alternative structures for information and payment registration in the technical application of SISTAFE | ? Sjolander | |
| Sep-02 | Plano de Operacoes 2003–2005 | DNCP, MPF | 2003–05 |
| Sep-02 | Specifications for Tender Invitation of Financial Management System eSISTAFE | Orjan Sinclair, SIPU | |
| Sep-02 | Planning and Budget Process in Mozambique (presentation) | Mikael Asen | |
| Sep-02 | Law No (State Financial Administration System) | - | |
| Sep-02 | Mozambique A Country Case Study | DAC Task Force on Donor Practices | 1975–2002 |
| Nov-02 | Email exchange between Thomsen and Asen | | |
| Nov-02 | Memorandum of Understanding between MPF and Donors on SISTAFE Common Fund | MPF Gabinete da Ministra | |
| Nov-02 | Assessment of present situation for the development and implementation of a Financial Management System for the Government of Mocambique | SIPU International | 2001–02 |
| Dec-02 | Tender – Regarding Support to the State Financial System in Mozambique | SIPU International | 2001–03 |
| Dec-02 | Proposal for an Invitation to Tender for a Financial Management Information System, e-SISTAFE for the Government of Mozambique | DNCP, MPF | N/A |
| Dec-02 | Performance Budgeting – Is Accrual Accounting Required? | Jack Diamond, IMF-FAD, IMF Working Paper 02/240 | |
| Dec-02 | Minutas Acordadas Consulta Annual entra o Ministerio e ASDI | MPF | |
| Dec-02 | Plano de Trabalho Annual 2003 (Work plan for 2003) | | 1991–2003 |
| Dec-02 | Inventariacao De Produtos | ? | July 93 –June 02 |
| Dec-02 | Conta Geral do Estado 2001 | GOM | 2001 |
| Dec-02 | List of training courses given in 2002 | | 2002 |

| Date | Title | Author | Period Covered |
|---|---|---|---|
| Jan-03 2003 | Plano de Trabalho Annual | SPFM project | Jan–Dec |
| Jan-03 | The Role of IMF in the Financial Management Reform in Mozambique | Swedish Embassy, Maputo | |
| Feb-03 | Sida's Evaluation Plan 2003 | Department for Evaluation and Internal Audit | |
| Mar-03 | Promoting Institutional and Organisational Development: A Source Book of Tools and Techniques | DFID | |
| Mar-03 | Comments related to the UTRAFE report of progress for the period October 2002 up to January 2003 and request for disbursements from the common fund of 14 February 2003 | Bengt Andersson | 2002–2003 |
| Mar-03 | Additional areas of request for assistance to MPF within the agreement for 2003 with SIPU International | Finn Hedvall (SIPU) | 2002–03 |
| Mar-03 | Modelo Conceptual Do SISTAFE | UTRAFE | 2002–03 |
| Apr-03 | Visit to inspect SISTAFE and the technical assistance provided by Mauro Jose Fridman Ferreira Pinto: Aide Memoire | IMF-FAD | |
| Apr-03 | Public Administration Sector Support -Plan of Operation | A Ejdemark | 1987–2003 |
| May-03 | Reform work at the Ministry of Planning and Finance in Mozambique | S Sjolander | 1988–2003 |
| Sep-03 | Mozambique Public Expenditure Review, Phase 2: Sectoral Expenditures | World Bank, PREM 1, Africa Region | |
| Sep-03 | Plan of Operations | | 2003–05 |
| Sep-03 | Study on the Organizational Structure and Human Resources of the DNPO | Mario Souto and Anthony Hodges | |
| Sep-03 | Department for Evaluation & Internal Audit 1995–2003 | | |
| Oct-03 | IMF supervision mission aide memoire of April 2003 | Swedish Embassy, Maputo | |
| Oct-03 | Monthly Performance Report | SPFM project | Oct -03 |
| Nov-03 | First report of the SISTAFE Quality Assurance Group | Cavanagh, Andersson, Reite and Pietras | 13–17 Oct 03 |
| Dec-03 | Summary of Results | | |
| Dec-03 | Summary of Technical assistance | SPFM project | 1993–2003 |
| 2003 | Good Practice Papers – A DAC Reference: Harmonising Donor Practices for Effective Aid Delivery | OECD-DAC | |

# Appendix D

## Chronology of Events

| Date | PFM Events | Major Project Outputs | Environmental |
|---|---|---|---|
| 1975 | | | Independence, socialist advisers |
| 1976 | | | Civil war (continued till 1992); collapse of provincial accounting and Annual State Accounts after those for 1974 |
| 1986 | | | GOM accepted IMF/WB structural adjustment and began market economy reforms |
| 1987 | Dutch/Swedish mission analysed PFM and recommended assistance to the Ministry of Finance | | Economic Rehabilitation Programme, Jan 87 |
| 1988 | Visit of Minister of Finance to Sweden, request for assistance on PFM, and contract with SPM | | Minister of Finance replaced |
| 1989–93 | First phase under SPM. Start in DNO/DEO (the Budget Project); Allan Gustafsson consultant 1989–91 | Introduction of computerised budget system (the Metodologia) 1989<br>Proposal for D/E modified accrual accounting system 1991 (not accepted) | Swedish Government moved to accrual accounting, 1992/93<br>Carlsson/Cavanagh Report Aug 91, recommending development of existing system rather than adoption of project proposal. |
| 1992 | Training expert started 2/92 under separate Sida-funded project (FORMFIN). | | End of civil war.<br>Steen/Åström report, Mar 92<br>Inter-Agency Programming Mission<br>Training Section established in DNARH |
| 1993 | RRV took over management of project Jul 93. Renamed SFMP and placed under Nat Dir of Budget (later Nat Dir of Planning and Budget, DNPO). Scope broadened to include budget, accounting, audit, and 10–15 year time horizon | | |
| 1994 | | | Elections Oct 94, change of government, new Minister of Finance. Presidential decree 2/94 merges of Ministries of Planning and Finance, Dec 94 |
| 1995 | Short-term targets tightened. Technical Groups set up to make all decisions on reforms in Budgeting and Accounting ? date | | |
| 1996 | Transfer of SPFM to newly created Nat Dir of Public Accounting (DNCP, Nat Dir and Project Coordinator Armindo Matos till Aug 2001) | Computerisation of accounting | World Bank Fiscal Management Review Stage 1, Jun 96, start of Joint Donor Review Missions monitoring reform to support HIPC and DBS. Organisational ordinances for MPF approved, Nov 96 |
| 1997 | | Budget and Accounts Frame Law 15/1997 and Ordinance 25/1997 (budget classification) | Expenditure Management Reform Strategy May 97Training Section upgraded to Department in DNARH |

| Date | PFM Events | Major Project Outputs | Environmental |
|---|---|---|---|
| 1998 | Sida training project (FORMFIN) integrated into SPFM<br>SPFM placed under DNCP<br>Newly created ESV took over project management from RRV (except internal audit), Jul 1998 | Implementation of 1997 Law wef Jan 98; computerisation of accounting (budget execution), salaries, pensions<br>Study tour to Portugal and Sweden Jul 98<br>Major training in MoF, line ministries and provinces | |
| 1999 | | State General Accounts for 1998 presented to Parliament, 12/99 (first since 1974, continuing for 1999, etc) | MTF Outlook (2002–04) issued. Elections Dec 99 |
| 2000 | | Quarterly Budget Execution Reports started wef 1Q 2000<br>Consultancy on identification of off-budget revenues Mar 00 | G7 donors Macro Financial Support to Mozambique – Proposed Framework, 4/00. Formulation of a PRSP (PARPA 2001–5) |
| 2001 | Sep 2001 SIPU International took over from ESV, with ESV (Anders Ejdemak, coordinator) continuing to provide technical backstopping<br>Annual meeting Dec 01 agreed on 3-year project extension to 2005 | Amendment to budget classification May 01 (COFOG functional classification)<br>Drafting and negotiation of SISTAFE Law 9/2002 (approved by Parliament Nov 01 and passed Feb 02, substituting for 1997 Law) | UTRAFE created by Decree (Mar 01) to coordinate reforms in budgeting, accounting, payments, revenue and audit.IMF ROSC (Feb 01), World Bank PE Management Review (Oct 01), CFAA (Dec 01) and CPAR (May 02) criticise the state of PFM; HIPC completion |
| 2002 | Sida agreed additional financing for debt management, salaries, asset management, procurement, results-based management, etc | New procedures introduced to bring off-budget revenues into accounts, Jan 02; study tour to Sweden, incl MPF Vice Minister; SISTAFE 1 conceptual framework discussed and presented Apr/May 02; Decree 17/2002 for new budget structure (passed Jun 02 but not implemented); invitation to tender for IT package drafted Sep 02 (but not issued); SISTAFE 1 training given; procurement legislation drafted | UTRAFE Management Council appointed Mar 02; IMF Res Rep made responsible for donor coordination; new plans/conceptual descriptions issued by UTRAFE Apr–Oct 02; responsibility for development of PFM reform added to UTRAFE coordinating role Jul 02; Sida and EU requested Oct 02 to phase out their support in core areas; MOU between MPF and donors set up Common Fund Nov 02 |
| 2003 | | | First QAG report Oct 03; Sida/IMF meeting in Stockholm 31 Dec 03; closure of project. |

# Appendix E

## Assessment of Reduction of Fiduciary Risk in Mozambique 1994–2003

Over the period 1994–2003, considerable changes were made to the financial management legal framework, organisation and procedures in the government. These have had the effect of reducing the level of fiduciary risk facing the government and donors. This analysis of the changes assesses the reduction in risk, without attempting to apportion the credit for this among the many players, primarily the MPF, Sida-funded project and other donor agencies, through technical assistance and through external advice. We do not think that such an apportionment is possible or desirable in a partnership environment.

Fiduciary risk to public funds is defined as the expected value of the loss of developmental benefits arising out of gaps between present financial management arrangements and generally accepted international standards. This analysis is made according to the DFID and OECD/DAC guidelines[1] on managing fiduciary risk when providing direct budget support. These build on the IMF Code of Good Practices on Fiscal Transparency, the IMF/World Bank reviews of 25 HIPC countries, and IFAC/PSC International Public Sector Accounting Standards. In the DFID and OECD/DAC guidelines, developmental benefits are defined (by implication) in terms of pro-poor expenditures[2]. The methodology has been used in pilot assessments in Ethiopia, India and Eastern Caribbean countries.

There are nine principles. For each principle, a rating of A, B or C has been made, first as at 1994, then as at present (end-2003):

- A represents a situation where there is substantial compliance with international good practice, although coverage may not be 100 per cent
- B indicates that there are some significant weaknesses in compliance or that the rules/procedures need to be changed
- C indicates substantial failure to comply with the rules or that the system will require substantial upgrading to meet international good practice.

These ratings represent the level of seriousness and concern with which any prudential shortcoming is viewed by the team and, inversely, the corresponding level of benefit expected from reform.

The average rating in 1994 is very close to C, the lowest possible, while the average in 2003 is exactly B. This indicates significant progress in reducing fiduciary risk.

1 DFID (2002) and OECD/DAC (2002). These two sets of guidelines are very similar.

2 This implication is drawn from two of the Good Practice Principles, viz. that the budget supports pro-poor strategies, and that the budget is a reliable guide to actual expenditure.

| Good Practice Principle and Benchmarks | Rating in 1994 | Rating in 2003 | Comment |
|---|---|---|---|
| **1. A clear set of rules governs the budget process**<br>1.1 A budget law specifying fiscal management responsibilities is in operation<br>1.2 Accounting policies and account code classifications are published and applied | B | A | The Frame Law and Decrees of 1997 and 1998 clarified the responsibility of MPF to prepare annual budgets and get them approved by Parliament. Accounting codes were included in the Decrees. |
| **2. The budget is comprehensive**<br>2.1 All general government activities are included in the budget<br>2.2 Extra-budgetary expenditure is not material | C | B | Considerable ministry 'own revenues' and project aid is not brought to account centrally, though coverage has improved since 2002 and will continue to improve by means of the single Treasury account |
| **3. The budget supports pro-poor activities**<br>3.1 Budget allocations are broadly consistent with any medium term expenditure plans for the sector or for the overall budget | C | B | The MTEF is at an early stage of development. Budgets are not closely linked to the Poverty Reduction Plan (PARPA, adopted 2001). |
| **4. The budget is a reliable guide to actual expenditure**<br>4.1 Budget outturn shows a high level of consistency with the budget | C | C | Actual expenditures are getting closer to budget allocations due to the improved coverage (see 2 above), but the late releases of funds and very detailed control over execution exercised by DNPO result in unspent budgets |
| **5. Expenditure within the year is controlled**<br>5.1 In-year reporting of actual expenditure<br>5.2 Systems operating to control virement, commitments and arrears | C | A | Monthly reports are submitted by ministries and provinces, and DNCP issues Quarterly Budget Execution Reports within 6 weeks of the end of each quarter. Virement is closely controlled by DNPO. Commitments are controlled, but not creditors or overdues. |
| **6. Government carries out procurement in line with principles of value for money and transparency**<br>6.1 Appropriate use of competitive tendering rules<br>6.2 Decision making is recorded and auditable<br>6.3 Effective action taken to identify and eliminate corruption | C | C | Procurement system has serious institutional, legislative and manpower weaknesses, which have a negative impact on the use of public funds and those from donors and international organisations (World Bank Country Procurement Assessment Report) |
| **7. Reporting of expenditure is timely and accurate**<br>7.1 Reconciliation of fiscal and bank records is carried out on a routine basis<br>7.2 Audited annual accounts are submitted to parliament within the statutory period | C | B | Fiscal and bank records are within the accounting system and are capable of reconciliation (done?)<br>Annual accounts are submitted within the statutory 12 month period, and a separate audit report within a further statutory 8 months |
| **8. There is effective independent scrutiny of government expenditure**<br>8.1 Government accounts are independently audited<br>8.2 Government agencies are held to account for mismanagement and criticisms and recommendations by the auditors are followed up. | C | B | Internal audit by the IGF and external audit by the TA have improved but still have a long way to go<br>Parliamentarians actively review the State General Accounts and Audit Report since the Accounts for 1998, and there is considerable public interest in holding government agencies to account |
| **9. The budget process is transparent**<br>9.1 Information on the fiscal activities of government is available in the public domain<br>9.2 Information presented in a way that facilitates policy analysis and promotes accountability | C | B | The State Budget and State General Accounts are published.<br>Programmatic classification of the Budget and Accounts is only slowly developing. Transparency is low. |

# Appendix F

## Comparison of Accounting Models

### SISTAFE 1 Chart of Accounts

*Class 0:* Budget Control and Order Accounts. These include an account for the initial approved budget for revenue and expenditure (01), changes to the budget (022 and 034), budget allocations retained by MFP (0223), commitments (*cabimentação)* against the available balance (026), and receipt of invoices (027). Thus the balances on these accounts show at any time the amount of expenditure committed (ordered) but not yet a liability, and the amount of goods and services delivered but not paid for (liabilities). (It did not appear to distinguish between invoices registered and invoices approved. These stages may be controlled by registers (memorandum records) outside the double entry).

*Class 1:* accounts are for liquid financial assets, such as the Treasury bank account (13) and accounts with other banks (12).

*Class 2:* accounts are debtors and creditors, such as amounts owing by taxpayers (212), amounts owing to suppliers (221), and public debt (domestic 231, foreign 232). Supplier account is credited on approval of invoice, and cleared on issue of a payment order (*liquidação do encargo*). There is no separate entry for an invoice becoming past due, so payment arrears can be found only by an analysis of the supplier accounts. In fact, most suppliers have to be paid 80% of the amount in advance. This is debited to account 229.

*Class 3:* accounts are physical stocks (hardly used by Government).

*Class 4:* accounts are investments, financial, physical and intangibles such as installation expenses, investigations, development expenses, and property rights.

*Class 5:* is called Assets Fund, i.e. government equity (original difference between assets and liabilities, changes on asset revaluations, and surpluses of income over current expenditure, with parts of the surplus arising from subsidies and grants shown separately).

*Class 6:* is expenditure, divided over cost of merchandise and materials consumed (61, as in a manufacturing enterprise), supplies and services (62), current transfers and subsidies (63), staff emoluments (64), depreciation of fixed assets (66), provisions for losses on receivables, inventories, etc (67), interest, losses on foreign exchange and other financial costs (68) and 'extraordinary costs and losses such as fines and penalties, irrecoverable debts, corrections with regard to previous financial periods (69). This is compatible with most of the IMF-GFS economic object classification.[3] However, it mixes in some activities (which use several objects) among the objects, eg. 62232 conservation and repairs, 62233 publicity and propaganda, 62235 surveillance and security.

*Class 7:* is for revenue. This is mainly for enterprises, but does include a limited breakdown of tax and non-tax revenue. Gains on foreign exchange translations are included here.

*Class 8:* consists of summary accounts for "operational income, financial income and extraordinary income" (ie. the current account surplus).

*Class 9:* is left free for analyses of classes 1–8 for other purposes, such as by function and by programme. It appears that this class includes a chart of "object accounts", not yet seen.

[3] The term 'object' here means the object purchased, such as personnel services, supplies, equipment and other capital items, and transfers (unrequited payments). y extension, this becomes the IMF-GFS economic classification. n object classification is also called a 'subjective' classification or a classification 'by nature of expense' (natureza de despesa).

## Comparison of the Present System, Proposed SFMP System (SISTAFE 1) and Conceptual Model (SISTAFE 2)

| Feature | Present System | Proposed SFMP System | Conceptual Model[4] |
|---|---|---|---|
| Legal basis | Law 15/1997 (for accounts for years up to 2002) | Law 9/2002 and Decree 17/2002 | Law 9/2002 and decree (currently in draft) |
| Coverage | All GOM budget execution units except those with financial autonomy (approx. 550) | All GOM budget execution units except those with financial autonomy (approx. 550) | All public sector agencies, by stages, incl. autonomous bodies such as municipalities and public enterprises |
| Classification (chart of accounts/object codes) | | | |
| • responsible person/unit | Organic (3 levels) | Organisational unit<br>Territory | Budget unit (UO)<br>Beneficiary unit (UGB)<br>Executing unit (UGE) |
| • purpose (exp. only) | Functional (per COFOG) | Function<br>Programme | Function/programme (3 levels) |
| • funding | Source of resources, e.g. internal/external, Treasury/grant/loan | Source of resources | Source of resources |
| • economic nature | Economic | Economic | Economic |
| • optional | None | Entities allowed to create sub-accounts as needed | SectorSection (sub-sector) |
| Basis of recognising revenue | Collection (cash basis) | Collection (cash basis) | Collection (cash basis) |
| Basis of recognising expenditure | Cheques paid (cash basis) | Invoices received and journal vouchers for aid in kind (accrual basis) | Cheques paid (cash basis), with potential for registration on accrual basis (?) |
| Entry system | Single entry (no General Ledger) | Single data entry generates computerised double entry in General Ledger | Single data entry generates computerised double entry in General Ledger |
| Execution | Agencies spend from monthly advances from the Treasury (*duodecimo* system) and are reimbursed (*reembolso*) against accounts (*balancetes*) | Agencies spend against budget allocations and within Treasury cash limits, with on-line info to Treasury? | Central payment by Treasury against Ministry/Provincial requisitions sent by Internet (also a system for local cash transactions as at present?) |
| Bank accounts | 596 legal bank accounts; in practice over 8,000 additional accounts holding external aid funds and dept own revenues (Sastre 1999) | Closure of unnecessary accounts, and pooling of remaining accounts in a single account held by the Treasury (conta única) | Closure of unnecessary accounts, and pooling of remaining accounts in a single account held by the Treasury (conta única) through linked e-CUTfisica system |
| Treatment of off-budget project aid & departmental revenues | Registered in an independent parallel system, not integrated with the main system; enforcement started 2002; only est. 60% of off-budget revenue included in 2003 | Registered in an independent parallel system, not integrated with the main system | Registered in an independent parallel system, not integrated with the main system |
| Treatment of physical assets | Separate computerised system under development | State assets (*patrimonio*) to be integrated into double entry system | State asset registration system to be developed (not integrated into SISTAFE) |
| Information database | Hierarchical | Relational | Relational? |
| Complementary period for inclusion of late payments | Two months in the Provinces; 3 months in the Centre | None | None |
| Transparency | None beyond the requirements of the law | Provision for public access to key fiscal data on the Internet | None beyond the law. Draft decree 112 makes all information on e-SISTAFE private |

[4] Not verified with SISTAFE technical staff.

# Appendix G

## Ministry of Planning and Finance Reforms within the Context of Reforms in Public Administration

### Reforms in the Ministry of Planning and Finance within the Context of Reforms in Public Administration

Reforms in the Ministry of Planning and Finance (MPF) from 1994 onwards, with the support of Swedish International Development Authority (Sida), occurred within a larger context of plans for public administration transformation in Mozambique in an environment defined by the consolidation of the peace process and the national unity, the development of the market economy, the establishment of a multi-party political system, and the need to develop the economy and to improve the standard of living of its citizens.

The first parliamentary multi-party elections in Mozambique took place in October 1994, with Frelimo remaining in power. In public administration, the government programme for 1995–1999 defined as general objectives the modernization of the state structure; administrative, financial and real estate decentralization; strengthening the rule of law and justice apparatus; defence of national sovereignty and territorial integrity; maintenance of public order; and the recognition of freedom of press (Governo de Moçambique). Investment in human capital was recognized as a key feature in modernizing the public administration.

The programme for 1995–1999 also focused on the objectives and actions within the scope of MPF. It indicated as priority actions the decentralization of budget management down to the local level, and control and transparency within budget execution. The state budget should include all financial and material flows. The government should continue with the ongoing fiscal reform in order to make the fiscal system more efficient.

The Summary of Reports document for the State Financial Management Project (SFMP) stated that the long-term objective of the project had an open-ended indication of direction (Bretschneider). This strategy recognized the evolving environment, so that the project could be adjusted continuously to changes in the needs and priorities, but always contributing to the improvement of the budgetary process, and to building up capacity for management control and evaluation of activities.

The presentation of the first state general accounts, in 1998, was a benchmark event within the series of outputs from the project. Training in public finance and management and in informatics, and the investment in information technology and equipment has been a constant activity. These later actions created the required capacity for the implementation of the reforms in the state financial system.

The dialectical inter-action between the objectives defined in the five-year government program and those defined at the MPF level continued with the second parliamentary multi-party elections in 1999. The programme for 2000–2004 defined not only traditional objectives, but also new objectives of reducing the complexity and the size of public organization, simplification of administrative procedures and human resources management, improving government ethics and fighting corruption (Conselho de Ministros).

The latest government programme delineates the objective of increasing the transparency in management and utilization of public resources and assets. This objective would be achieved through the following main actions: designing a new accounting system; modernizing the treasury system; developing tools to rationalize financial flows between the state and public companies; and reorganizing and strengthening the capacity for inspections and auditing. Another defined objective was aimed at improving the external funds allocation and application monitoring mechanisms within the state budget.

It was only in 2001 that an Inter-ministerial Commission for the Public Sector Reform (CIRESP) defined a global strategy for the public sector reform for 2001–2011. The main purpose was to provide an umbrella and a coherent framework for various government reforms in order to consolidate a democratic society and a state ruled by law. The strategy was designed around six thematic areas: the role of the public sector, human resources development policy, decentralisation and deconcentration policies, good governance and fight against corruption, management of public processes and policies, and financial management.

The global strategy of the public sector reform defined the improvement of the financial management as priority. It acknowledged the weaknesses in the public financial system:

- the absence of results-based budget programming and execution;
- that only part of the funds used by the public sector were recorded in the public accounting system;
- auditing and financial control were still done on an irregular basis and of limited coverage;
- part of the laws and regulations on the financial management of the state was outdated.

Therefore, the objective was correcting these weaknesses. A new law of the state financial administration system was approved by the parliament in 2002. The regulation of this law was also approved, thereafter.

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