

GOVERNMENT BUDGET PROPOSAL 2021 A CONTRIBUTION BY CIP FOR IMPROVEMENTS OF THE DOCUMENT

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Mozambique rose by just one point in terms of budget transparency between 2017 and 2019, from 41/100 to 42/100 and remains below countries in the Southern Africa region, such as South Africa and Zimbabwe with 87 and 49 points, respectively, according to the Open Budget Index 2019. The survey, which is carried out by the International Budget Partnership (IBP) in partnership with the Center for Public Integrity (CIP), showed that one of the most important documents for the discussion of the country's resource envelope, the Government Budget Proposal (POE), continues to present limited information available for public scrutiny.

However, following the approval by the Council of Ministers (CM) of the resolution regarding the Medium-Term Fiscal Framework (CFMP) 2021 to 2023, there is scope for improvements in the POE 2021 explanatory document. And CIP congratulates the Ministry of Economy and Finance (MEF) for the timely preparation of that document. However, it is important that it be in the public domain before the submission of the POE 2021, so that it is effectively available for public use.

In this sense, and in order to see improved transparency in the explanatory document and the supporting tables of the POE 2021 that must be submitted to the National Assembly by 30 September, CIP proposes the following measures:

1. Since the CFMP 2021 - 2023 has already been produced, there is already a solid basis for projections. In order to ensure consistency between documents, the POE 2021 should reflect the projections in the CFMP. For example, in the tables showing the classifications of functional, economic and administrative expenditure, CIP suggests that the projections for at least the two subsequent years covered by the CFMP be presented. The same is true for revenues. Projections for subsequent years are useful to give credibility to Government projections.
2. The POE 2021 should also be aligned with the Government's Five-Year Program and the Economic and Social Plan, based on clear indicators that facilitate the monitoring of the achievement of goals and of resources to be spent.
3. The POE 2021 should be the operational document of the Government's Five Year Program (PQG), and should be based on the CFMP projections and reflect the quantitative targets of the Economic and Social Plan (PES).
4. The CFMP document should include projections of the interest rate on loans for 2021. It is also useful that

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this information be included in the POE 2021.

5. The POE should start incorporating elements to have it compare favorably with internationally accepted presentations. The fact that the presentation of budget items does not adopt an internationally recognized system of accounts (the “Chart of Accounts”) makes it difficult to interpret the figures from an economic point of view. Thus, the primary balance should be a key indicator when analyzing the Government’s fiscal policies, which is lacking in Mozambique. Also, operations related to debts, both internal and external, should be presented in a logical way in order to clearly identify amortizations and thus the fiscal deficit.

6. The POE should provide a detailed statement of the execution of the funds received and spent in the context of COVID-19 in 2020.

7. It is also important that the information made available in the annual and quarterly Debt Reports be incorporated into the POE 2021. For example, in the public debt section the stock of debt should show in detail the total debt contracted in 2020.

8. The POE should bring the technical justification behind the definition of the limits for indebtedness and the issuance of government guarantees.

9. Still on public debt, it is important that both the domestic and the external debt present the forecast of the interest rate and maturity of the loans.

10. The POE should contain the details (for example: interest rate and creditors) of the National Hydrocarbon Company (ENH) regarding its participation in natural gas projects in general and in Rovuma basin projects in particular.

11. The POE should take into account recent events (insurgency in Cabo Delgado and the pandemic of COVID-19) in the projection of revenues to be collected from the extractive sector.

12. Inflation, interest rate and real GDP growth projections are more informative when accompanied by a reasoned analysis. In this context, instead of just reproducing the projections from the 2020 Budget Law, the most recent estimates should be used. For example, the Government on 26 August 2020 revised the real GDP growth rate to 0.8%, down from 2.2%. This new growth rate should be the basis for the POE 2021 projections, with detailed information on the assumptions behind this projection.

13. It would be ideal if the POE included the budgetary impact of new policies or measures. The same goes for the IRS. For example, containment measures have long been emphasized, but it has never been shown in detail what has been saved.

14. It is important that the explanatory document for the Budget proposal contain information on government actions from a gender perspective.

15. CIP argues that, in order to improve the issue of public participation, the right time has come to hold a virtual meeting for gathering the opinions of Civil Society on what would be its proposals in terms of sector allocations for 2021. For example, to define an amount whose beneficiary would be determined following the implementation of open mechanisms for public participation.

16. The POE must contain the technical justification that supports the definition of the amount to be allocated to communities that host projects in the extractive sector, commonly known as the 2.75%. CIP proposes a revision to 5.75%.

17. The POE should show more detailed information on public companies and start to focus more on this sector from a financial discipline point of view.

18. To modernize the planning and budgeting system in Mozambique, program-based planning should be introduced as soon as possible. As this is intrinsically linked to reforms in e-SISTAFE, which is not yet

happening, CIP considers it crucial to include again information from the economic and social sectors. In 2020, there was only information on the health and education sectors, excluding important sectors such as water and sanitation, which still lack a separate budget line for “sanitation”.

19. Decentralized governance bodies have to contribute to making more information available (both at the municipal and provincial levels). The POE should indicate the main budget lines in the context of decentralization.

20. To increase the POE’s credibility, the document should serve as a guide for the execution of expenditure in the different sectors. For this reason: (1) the reallocations of expenses that the MEF makes after the approval of the OE by the AR should be gradually reduced, and (2) the weak executions of social sectors, even though they have a good allocation of expenses, should be improved, especially in the context of COVID-19, which is expected to last until 2021.

21. In the government documents being published (not only the POE / PES), supporting tables could be made available in Excel to facilitate analysis.



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