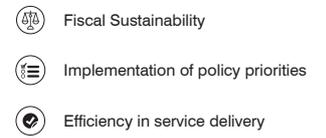


MOZAMBIQUE



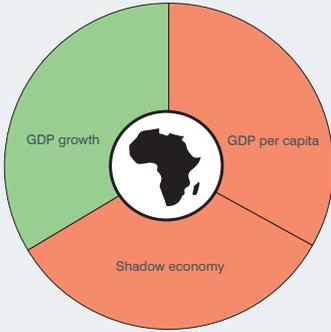
Enabling environment

Processes

Outcomes

Developmental impact

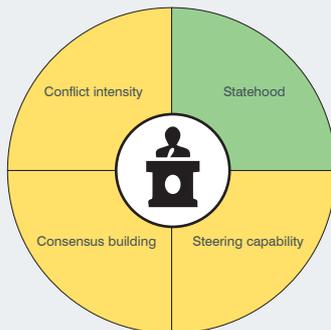
Economic context



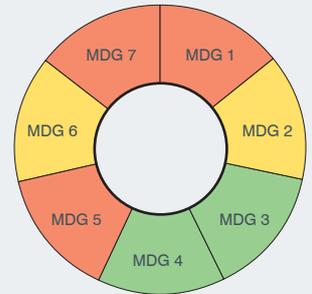
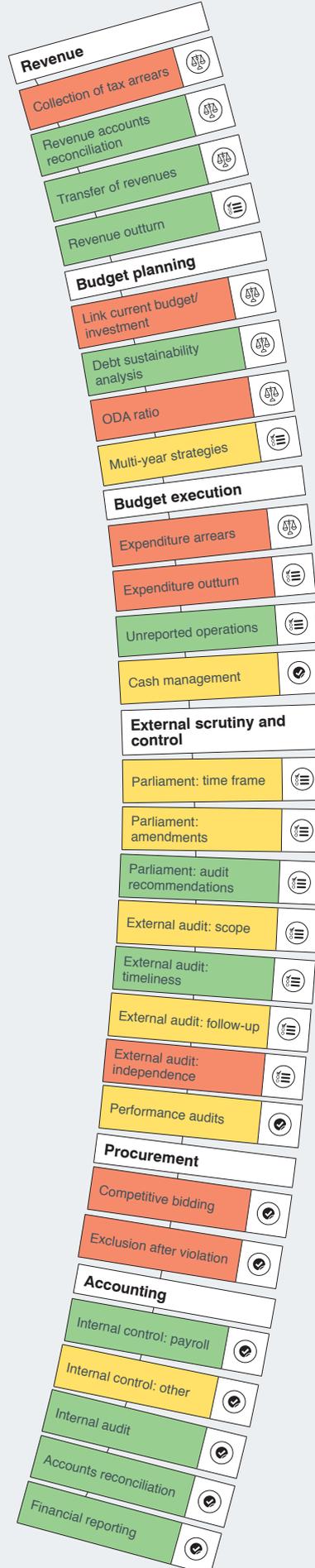
Anti-corruption



Political Economy



Governance



HDI	+0.01
Extreme Poverty	31.40%
School enrolment	87.60%
School completion	47.60%
Infant mortality	56.70
Maternal mortality	489.00
Gini Index	45.60
Environment: performance	2.93 (Rank 172/180)
Environment: policy	3.00



4 MOZAMBIQUE

EXECUTIVE SUMMARY

Mozambique has been unable to achieve most of the envisaged development results despite robust growth over the past 15 years and an increase in gross domestic product (GDP) per capita. Large parts of the population still live in poverty and are affected by hunger. Similarly, there have been only minor successes with the other Millennium Development Goals (MDGs). The fiscal and economic conditions deteriorated sharply in 2015 and 2016, with economic growth three per cent below the long-term growth projections and public debt higher than expected due to non-disclosed public loans. The debt ratio has grown to approximately 100 per cent of GDP and there is a high risk of fiscal crisis.

Systemic weaknesses affect core public financial management (PFM) processes such as revenue management, procurement, and internal control processes. Public funds are regularly reallocated by the government during the execution phase of the budget. Corruption and a lack of adequate checks and balances remain key concerns. Recent scandals, such as the 850 million USD debt issuance for a politically motivated tuna fishing deal, of which 500 million USD was spent on maritime defence, is a case in point. It was also recently discovered that 1.4 billion USD in debt was hidden off-budget as loans to state-owned enterprises. This discovery led to the suspension of official development assistance (ODA) to Mozambique. It is important to note that most of the indicator analysis presented here was done prior to the discovery of this hidden debt.

One explanatory factor for the weak control mechanisms is the dominant role of the governing Mozambique Liberation Front (FRELIMO) party in Mozambique. Having ruled since independence, this party dominates the entire polity as well as the country's economy. Separation of powers is therefore seriously challenged. The dominance of the executive branch constrains the functioning of the anti-corruption, auditing, and legislative control authorities. Violations against freedom of speech have been reported, with the media measured as only partly free. In addition, marginalisation of opposition parties has led to political instability since 2012 and triggered violence. In fact, some observers have described opposition party declarations of an autonomous state in the Central and Northern provinces, following the 2014 elections, as an undeclared war.



PFM CORE PROCESSES AND OUTCOMES

Fiscal sustainability

Process Indicators	Source	Score	Year
Collection of tax arrears	PEFA	PI 15.10: D	2015
Revenue accounts reconciliation	PEFA	PI 15.30: A	2015
Transfer of revenues	PEFA	PI 15.20: B	2015
Link between investment and recurrent budget	PEFA	PI 12.40: D	2015
Expenditure arrears	PEFA	PI 4: D+	2015
Debt sustainability analysis	PEFA	PI 12.20: A	2015
ODA to total expenditure (aid dependency)	World Development Indicators	58.70%	2012
Outcome indicators			
Revenue-to-GDP ratio	CABRI	32.90% 32.21% 27.53% 27.11%	2014 2013 2012 2011
Operating ratio	CABRI	76.21% 92.29% 87.73% 84.98%	2014 2013 2012 2011
Primary balance	IMF	5.20% (projection) 6.00% (projection) 7.80% (estimate) 2.00% 3.00%	2016 2015 2014 2013 2012
Debt to GDP ratio	IMF (2014)	201.00% 86.00% (estimate, different source) 56.50% (estimate) 53.10% 42.70%	2012-2016 change 2015 2014 2013 2012
External debt to GDP ratio (IMF threshold 40%)	IMF (2014)	32.20% (projection) 31.10% (projection) 29.10% (projection) 25.50%	2016 2015 2014 2013
PV external debt to revenue ratio (IMF threshold 250%)	IMF (2014)	125.30% (projection) 124.30% (projection) 106.70% (projection) 92.90%	2016 2015 2014 2013
External debt service to revenue ratio (IMF threshold 20%)	IMF (2014)	10.00% (projection) 8.40% (projection) 5.20% (projection) 3.70%	2016 2015 2014 2013

Mozambique is currently unable to mobilise sufficient revenue to cover existing government expenditure. Additional revenue mobilisation is required to increase fiscal space to fund pro-poor activities. The government is heavily donor dependent, with almost 60 per cent of overall government expenditure in 2012 funded by ODA. Fiscal policy was expansive in 2015, which served to further widen the public deficit and increase debt. Fiscal performance under the IMF Standby Credit Facility was disappointing, with the targets for late 2015 and March 2016 missed. Moreover, in April 2016, non-disclosed loans amounting to 10 per cent of GDP were discovered. This

Insufficient revenue mobilisation, expansive fiscal policy, and non-disclosed loans have raised the level of public debt and risk of fiscal distress

discovery raised the official debt to GDP ratio to 86 per cent. The IMF consequently describes the risk of fiscal distress as high, and has urged the government to take earnest measures towards fiscal and monetary consolidation to stabilise the macroeconomic environment and prevent a further economic downturn. The IMF has requested an international audit of the non-disclosed loan before they assess a new support program.

Expenditure arrears have grown despite an automated system that is supposed to prevent their accumulation

Fiscal sustainability is also affected by poor performance in the area of tax and expenditure arrears. Tax arrears currently amount to 3 per cent of total government revenue, with the recovery rate standing at only 15 per cent. The stock of expenditure arrears grew due to the government's inability to refund value-added tax (VAT) payments and improperly developed control mechanisms. Even though there is an automated system to prevent the accumulation of arrears, data are not updated regularly or aggregated to provide an accurate overview of the expenditure obligations and their age.

The inability to factor the cost implications of investment projects into the MTEF leads to shortcomings in implementation and overshot budget ceilings

With regard to the medium-term expenditure framework (MTEF), the government struggles to calculate the cost implications of investment projects over time. The issue stems from a lack of coordination between sector strategies, the MTEF, and the annual budget. Furthermore, the recurrent cost implications of capital expenditures are not adequately captured in the medium- and short-term budget projections. This leads to either shortcomings in implementation or overshooting of budget ceilings.



Implementation of policy priorities

Process Indicators	Source	Score	Year
Overall expenditure outturn	PEFA	PI 1: A	2011
Expenditure composition outturn	PEFA	PI 2: D+	2011
Revenue outturn	PEFA	PI 3: A	2015
Multi-year perspective	PEFA	PI 12.10: C PI 12.30: C	2015 2015
Unreported government operations	PEFA	PI 7.10: A	2015
Parliamentary scrutiny: Time frame	PEFA	PI 27.30: C	2015
Budget amendments	PEFA	PI 27.40: C	2015
Audit recommendations	PEFA	PI 28.30: B	2015
External audit: Scope	PEFA	C	2015
Timeliness	PEFA	B	2015
Follow-up	PEFA	C	2015
External-audit: independence	GI AFROSAI-E SA	All 7: 0 Q 9 + Q10: 3 + 4	2016 2015
Outcome indicators			
Public health expenditure/GDP	World Development Indicators	3.94%	2014
Public health expenditure/total expenditure	World Development Indicators	8.81%	2014
Government education expenditure/GDP	World Development Indicators	6.75%	2013
Government education expenditure/ total expenditure	World Development Indicators	19.00%	2013

Shifts in expenditure allocations during the execution phase are a main driver of deviations between approved and actual expenditure

The government suffers from a lack of budget credibility when it comes to implementing policy priorities. Although public expenditure and financial accountability (PEFA) assessments note that the overall budget and revenue outturn were good, the government performed poorly on the composition of expenditure outturn. The deviations by examined entities between approved budgets and actual expenditure cannot be explained easily. One factor is the shifting of allocations during the execution phase, which can take place without legislative approval if the resource envelope remains constant. Another driver of deviations is poor planning and budgeting capacity by



public entities. MTEF projections are not always performed adequately, with unrealistic assumptions and no consideration of different macro-economic scenarios. While strategies are developed for most of the larger sectors, they are not always properly costed – if at all.

Another shortcoming that might harm the implementation of policy priorities is the way in which legislative control is designed. The legislature does not always get enough time to scrutinise and discuss the budget proposal. Recently, the legislature has only been granted one month for the ex-ante budget review. After the approval of the budget, the executive enjoys the power to reallocate funds during the execution phase. This weak role of parliament contributes to a pattern of expenditure that does not put developmental objectives first, especially spending on healthcare which is low by regional standards.

The legislature is unable to effectively engage with the budget proposal and prioritise development objectives

Control of the budget scores slightly better. The supreme audit institution (SAI), the Tribunal Administrativo (TA), which follows the Court model, gives recommendations on the financial report and these are generally approved by parliament. The status of implementation of these recommendations is then reported in the subsequent financial report, which is audited by the TA and scrutinised again by parliament. The TA, however, is not regarded as independent. Global Integrity notes that appointments to the TA do not follow a merit-based system, and are instead politically biased. Furthermore, public perception is that the ruling party exerts influence - through its powerful members, with key positions in state enterprises - on processes which are audited. According to PEFA 2015, audit coverage included about 42 per cent of budget entities. The PEFA 2015 scoring on audit coverage, however, does not fully reflect the extent to which Mozambique's SAI controls the budget. In addition to audits, oversight functions include analysis of management accounts, reports and opinions on the General State of Accounts, and ex-ante control (visto) of public contracts.

While control processes are fairly thorough the independence of the TA has been questioned



Efficiency in service delivery

Process Indicators	Source	Score	Year
Cash management	PEFA	PI 16: C+	2015
Procurement: competitive bidding	GI PEFA	All 25: 00% PI 19.20: D	2016 2015
Procurement: public access to contracts	GI PEFA	All 26: 0.00% PI: 19.30: D	2016 2015
Procurement: exclusion from future biddings	GI	All 28: 0.00%	2016
Internal control: payroll	PEFA	PI 18: B	2015
Internal control: non-payroll	PEFA	PI 20: C+	2015
Internal audit	PEFA	PI 21: B+	2015
Accounts reconciliation	PEFA	PI 22: B	2015
Financial reporting	PEFA	PI 25: B+	2015
Outcome indicators			
Hospital beds per 1 000 inhabitants	World Development Indicators	0.70 0.80 0.87	2011 2006 1990
Access to sanitation	World Development Indicators	20.40% 16.50% 10.30%	2015 2005 1990
Access to prenatal healthcare	World Development Indicators	90.60% 92.30% 71.40%	2011 2008 1997
Pupil-teacher ratio (primary education)	World Development Indicators	54.40 66.30 54.50	2014 2005 1990

Open and competitive bidding processes are often compromised or not implemented

Service delivery is negatively influenced by poor procurement. All projects above 10 000 USD legally require an open and competitive bidding process. The process and legal framework, however, are often compromised or not implemented. According to Global Integrity, there have been several violations of the law without any consequences. In 2014, 52 per cent of awarded contracts (as measured by value) did not use competitive procurement methods (PEFA). In addition to these irregularities, public procurements in Mozambique lack transparency. It is very difficult for the public, media, and NGOs to obtain information. This undermines any system of checks and balances.

Two electronic management systems have been introduced to improve cash management, but full coverage has not yet been achieved

Cash management is another area of weakness. This is correlated with the low budget credibility, since public funds are frequently shifted horizontally and vertically by the government during the budget execution phase. Internal control is weak, in particular in areas of payment control. Although the introduction of two electronic management systems (e-FOLHA and e-CAF) have brought about improvements in the payroll and personnel system, full coverage has not been achieved yet. This is especially true for salary payments, which are still done manually for non-integrated staff and do not fulfil the standards for data integrity.

Good scores were received for internal auditing, account reconciliation, and financial reporting

The government did receive good scores for internal auditing, account reconciliation, and financial reporting. There is, however, still room for improvement by increasing coverage of the reporting on each expenditure process, i.e. commitments, liquidation and payments (PEFA).

Besides prenatal care, health related outcomes have remained poor

The systematic weaknesses in the public finance system and generally low budget allocations mean that health-related outcome indicators have remained poor. The number of hospital beds available per 100 inhabitants is low by global and sub-Saharan Africa standards. In addition, access to sanitation is almost 10 per cent below the average for sub-Saharan Africa. Only in the area of prenatal healthcare did access rates improve strongly over the past two decades. This partly influenced the level of development discussed below.

ENABLING ENVIRONMENT

Economic context

Indicator	Source	Score	Year
GDP per capita (USD PPP)	World Development Indicators	1 190	2015
		1 140	2014
		1 070	2013
		1 010	2012
		952	2011
GDP growth	World Development Indicators	7.03%	2011-2015 average
		6.27%	2015
		7.43%	2014
		7.14 %	2013
		7.20%	2012
7.12%	2011		
Shadow economy to GDP	Estimate Prof Schneider	31.20%	2000-2015
Land locked	No		
Driving sectors	Agriculture: 25.50%; Industry: 20.20% ; Services: 54.40% (2015)		

Economic growth rates have slowed, with significant downside risk following the suspension of ODA

Mozambique belongs to the group of the poorest and least developed countries in the world. Despite its low human development ranking, robust economic growth in recent years has brought about a consistent increase in per capita incomes. For the 15 years preceding 2014, Mozambique had one of the highest average economic growth rates among non-oil economies in Africa. Economic growth is mainly driven by the extractive resource sector, total government expenditure, agriculture, construction, and tourism. Mozambique's economy is highly dependent on a few large projects in the extractive resource sector, especially coal and aluminium. Impediments to economic expansion



and medium- to long-term growth are the lack of a well-educated workforce and poorly developed infrastructure. The IMF expects growth in 2016 to fall three per cent below the historical average, with substantial downside risk for future growth. Following the suspension of ODA after the discovery of off-budget debt, the state of the public finances is critical.

Political economy

Indicator	Source	Score	Year
Statehood	BTI	7.50	2016
Steering capability	BTI	5.34	2016
Consensus building	BTI	7.00	2016
Conflict intensity	BTI	5.00	2016

Statehood

Since the end of colonial rule in 1975 and throughout the 17 years of civil war which ended 1992, there has only been one ruling party. The government party has used its influence to skew power in the political system towards the executive branch, resulting in a weak parliament and judiciary. The ruling party has won elections with growing margins over time.

The executive branch dominates a weakened parliament and the judiciary

The state's monopoly of military and police force has been severely challenged by the opposition who use their own fighters to challenge the state's authority. There have been several attacks and counter attacks since 2013, with some observers describing the situation as an undeclared war. After the elections in 2014, the leader of the opposition forces declared an autonomous state that includes the central and northern provinces of the country. The declaration of autonomy underlines the ambitions of the opposition to challenge the government and the public forces at both the military and political level. The overall security situation has deteriorated, especially in Maputo, where the incidences of kidnapping have increased. Police seem unable to cope with the current situation.

The opposition severely challenges the authority of the government

It is currently unclear how the conflicts and challenges to the monopoly of force are going to impact the state, its territory, and its identity. Despite these challenges, the state identity has grown through the process of decolonisation. The former liberation movement promoted development of a national identity by working against ethnic discrimination and establishing a countrywide language. For instance, the Constitution now prohibits any parties with a single ethnic or regional character.

State identity has grown through the process of decolonisation, working against ethnic discrimination, and establishing a country-wide language

Mozambique's public administration is underfunded, under-capacitated, and due to decentralisation, quite complex. The planned institutional set-up aims to bring the administration nearer to the citizens using four layers of government, thereby improving service delivery and reducing poverty. Reforms undertaken over the last 15 years attempted to improve efficiency and effectiveness in service delivery, as well as strengthen citizens' participation and mechanisms to improve control and accountability of the government. The administration in Mozambique is currently able to deliver basic services and has recently achieved improvements in the quality of service. Due to the lack of funding, some areas face severe challenges, such as the provision of adequate sanitation in urban areas.

The public administration can deliver basic services but is under-resourced

Steering capability

The government's main priorities are to reduce poverty and to secure peace, national unity, and democracy. There is a broad consensus, even among the government and opposition parties, that the market economy is necessary to serve both socio-economic and business interests. Verbal commitments, however, are not always in line with actual policies. The government has focused on large projects in the extractive resources sector, infrastructure development, and increased public sector payments. These projects are often politically motivated, not very inclusive, and have increased

The government's focus on large projects has reduced the fiscal space to fund other initiatives

public debt. Public funds have also been diverted for military purposes in the past. This has tightened the fiscal space available for government to fund other initiatives. In 2015, the new government launched a five-year development plan that prioritises job creation, infrastructure development, and increased productivity in agriculture, fisheries and tourism. Questions remain about how the government will implement this plan as policy implementation has been weak historically – especially regarding poverty reduction. Currently there is minimal sector-specific expertise available on the ground, and weak bureaucratic structures impede implementation of development plans and policies.

Consolidation of democracy doesn't seem a priority

Consensus building

Although democracy is rhetorically praised, its consolidation is not a practiced priority of the government. Members of the ruling party have been appointed to high level positions in the public and private sector offering rent-seeking opportunities. These patterns of behaviour allow the party to sustain control. Similarly, the biggest opposition party and its leadership are not driven by an ambition to foster democratisation. Their primary motivation is to gain power to access resources. This has been seen in their decision to shun democratic structures and procedures, and declare an autonomous state. The current political set up bears the risk of political conflicts and ethnic divisions. The governing style of the previous president in his last term and the marginalisation of opposition parties has led to sustained political instability and violence since 2012. This instability forced the government to negotiate with the opposition, which revealed the limits of its power.



Anti-corruption

Indicator	Source	Score	Year
Investigations against senior level officials	Global Integrity	12: 00%	2016
Effectiveness of investigations	Global Integrity	13: 25%	2016
Staff appointment anti-corruption agency	Global Integrity	14: 25%	2016
Corruption Perception Index	Transparency International	CPI: 31 (112/168)	2015

Corruption is a severe problem

As with many other countries in the region, corruption is a severe problem in Mozambique. Not only does the ruling party control Mozambique's policies, but it is also extensively involved in the country's economy. Mozambique is therefore ranked 112 out of 169 countries by Transparency International in terms of perceived corruption.

The GCCC lacks independence from government and many investigations into allegedly corrupt activity have not been carried out

In the latest study by Global Integrity, the Central Directorate for Combatting Corruption (GCCC) did not carry out any investigations against senior government officials or opposition politicians. This was despite evidence of misconduct that surfaced through trials against international business partners and media reports of corruption involving the president and ministers. In general, the GCCC is not renowned as an effective government entity. Although mechanisms are in place to receive complaints from citizens on incidents of corruption, the response to such complaints is ineffective. In the last phase, only 72 of the 342 complaints regarding embezzlement of public funds and corruption were investigated. Moreover, all 72 of these cases involved only low-profile public officials. The GCCC lacks independence from the government and the necessary human and financial resources to carry out its work. Most or all of the current prosecutors have a connection to the ruling party.



Governance

Indicator	Source	Score	Year
Public access to information	PEFA	PI 10: B	2015
Right to request information	Global Integrity	All 41: Yes	2016
In practice request for information are effective	Global Integrity	All 42: 0%	2016
Access to legislative processes and documents	Global Integrity	All: 43: 50%	2016
Government censoring of media	Global Integrity	All 55: 0%	2016
Rule of law	Bertelsmann	BTI: 4.30	2016
Political participation	Bertelsmann	BTI: 6.25	2016
Freedom of the press	Freedom House	FH: Partly Free	2016
	Reporters without borders (RSF)	RSF: 30.25 (87/180)	2016
Gender equality	BTI	0.66	2016

Regarding governance, Mozambique suffers from shortcomings in terms of rule of law, political participation, and transparency. A primary challenge remains the separation of powers. The ruling party not only dominates the executive branch, but also the judiciary, and only people with strong ties to the leading party can acquire positions in the public sector. This situation violates the principle of an independent judiciary, although it is guaranteed by law. The attorney of the state remains a weak position, plagued by political interference. Similar is true for the director of the GCCC. Both are appointed by the president without approval of the legislative. This and widespread corruption in the judiciary undermines the institutions' effectiveness and leads to a poor reputation among the population.

The ruling party dominates the executive branch, judiciary, and appointment of public officials

Basic civil rights are not always guaranteed. Elections have deteriorated in terms of democratic quality. The rights of assembly were restricted in the last elections despite constitutional guarantees of universal, direct, secret, and periodic elections. The main opposition party in fact boycotted the local elections and questioned the legitimacy of the government.

Rights of assembly were restricted in the last elections

According to the Bertelsmann Foundation, violations of freedom of speech have been reported in their last observation period. These violations have especially targeted members of the opposition parties. The 2016 Bertelsmann Transformation Index (BTI) report mentions that government intelligence forces allegedly monitor email correspondence of opposition party members. Although the legal framework has recently been improved, there have been physical attacks against journalists. Some of these attacks involve security forces. The editor of the *Diario de Noticias* was assassinated in August 2015 after publicly supporting journalists who faced charges for defaming the president (Reporters Without Borders – RSF 2016). RSF ranks Mozambique 87 out of 180 countries for freedom of the press, and Freedom House considers the press in Mozambique as partly free. This situation has led to behaviour of self-censorship.

Intimidation of the media has led to a behaviour of self-censorship

There is also room to improve transparency. The Constitution equips citizens with the right to request information. The Access to Information law was passed in 2014, however, little has happened on the ground. Regulations that specify the implementation of the Access to Information law have not been approved yet, with little information available on- or offline. The situation is much better when it comes to legislative information. With a few exceptions (e.g. security, defence) information is physically available and, with some delays, also online. The government is also performing well with regard to providing information on public finances. Here, the government provides five of the seven documents requested by PEFA, achieving a B score.

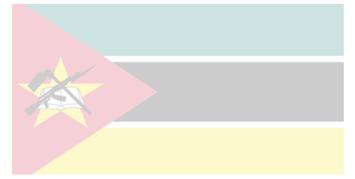
Online and physical access is provided to most legislative and public finance information

DEVELOPMENTAL IMPACT

Indicator	Source	Score	Year
Human Development Index	BTI	+0.01 0.39 (178/187) 0.33 (185/187) 0.32 (184/187) 0.40 (172/182)	2010-2016 2016 2014 2012 2010
Millenium Development Goals (MDGs)	Mozambique MDG Report	MDG 1: missed with progress MDG 2: partly achieved MDG 3: likely to be achieved MDG 4: achieved MDG 5: missed with little progress MDG 6: partly achieved MDG 7: missed. Progress in some areas	2013
Extreme poverty (below 1.90 USD PPP 2011)	World Development Indicators	31.40% 47.30%	2008 1996
Primary school enrolment	World Development Indicators	87.60% 86.50% 85.40% 84.90% 86.90% 72.10%	2014 2013 2012 2011 2010 2005
Primary school completion	World Development Indicators	47.60% 48.00% 50.20% 52.60% 56.30% 40.70%	2014 2013 2012 2011 2010 2005
Infant mortality (per 1 000 inhabitants)	World Development Indicators	56.70	2015
Maternal mortality (per 100 000 inhabitants)	World Development Indicators	489.00 506.00 528.00 563.00 596.00 762.00	2015 2014 2013 2012 2011 2005
Income inequality – GINI index	World Development Indicators	45.60	2008
Life expectancy	BTI	50.20 49.50 49.00 42.00	2016 2014 2012 2010
UN education index	BTI	0.37 0.22 0.22 0.48	2016 2014 2012 2010
Environmental performance	Yale EPI	2.93 (172/180)	2016
Environmental policy	BTI	3.00	2016

The government has made little progress on human development or the MDGs

Despite robust economic growth over the past 15 years, the government was unable to deliver substantial development results. There has been hardly any progress made on human development over the past five years. Similarly, progress made towards the MDGs is unsatisfactory. Mozambique therefore sits among the ten weakest countries. The government was unable to achieve its poverty alleviation objectives, with the latest available data from the World Bank indicating that more than 30 per cent of the population still live below the 1.90 USD purchasing power parity poverty line. The



government did manage to achieve an increase in primary school enrolment, but completion rates fall short of the target. Major progress was made on gender equality, with girls now experiencing almost equal access to primary education. No reliable data is available for secondary education, but tertiary education targets should be achieved in the near future. Targeted child mortality rates have been achieved, although the reduction in maternal mortality has not been as successful as envisaged. Thus, MDG 5 will not be achieved. MDG 6 was partly achieved, with significant successes in the fight against HIV/AIDS.