Analysis of the Budget Allocation Criteria used by the Government of Mozambique

An analysis of the territorial allocation
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Title
ABSTRACT

The present document analyses the Budget Allocation Criteria of the Mozambique State Budgets. The Government uses a territorial allocation formula to provide initial budget limits when elaborating the MTEF. The allocations to provinces in the Budget have large discrepancies if compared with the allocation-in-theory. During the year, the allocations can change; reallocations do not seem to arise according to the formula either. Indeed the formula is used only at the initial stage, while during the preparation of the budget the real costing exercise – or the real requests for funds from budget vote holders – are factored in and financed. The budget is the result of a spread out, distributed process where every budget vote holder is responsible for its tiny bit of the State Budget, which is later summed up with all other pieces. Everything in principle is held together by the PQG, but the MEF capacity to ensure coherence and fairness could already be stretched beyond its limits. The envelopes for sectors and programmes are known only ex-post, at the end of the budgeting. It seems that the government is not harnessing the opportunity to influence (or condition) budget allocation at the beginning of the process and drive it actively. The definition of standardised services and functions with standard (functioning) costs could ease the budgeting of recurrent function and make it equitable, transparent and more efficient. The Government investment programming – both at central and provincial level – could be used as an instrument to reduce inequality and tackle deprivations in population well-being. It might be done with a longer term perspective (three years), with envelopes devoted to sectors and to specific projects so that it would be possible to work around the limits imposed by the yearly budgetary resources. The components of the multidimensional poverty index might be used to orient budget allocations to sectors during the budgeting. The MTEF as a whole and the part devoted to investment in particular would need to be strengthened, focussed and rigorously scrutinised. The preparation of the Budget should clearly proceed from the MTEF and analogous focus and rigour should apply.
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**List of Acronyms**

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<th>Abbreviation</th>
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| CGE          | Government Ledger  
             | Conta Geral do Estado |
| DNEAP        | National Directorate for Studies and Policy Analysis  
             | Direcção Nacional de Estudos e Análise de Políticas |
| DNEEF        | National Directorate for Economic and Financial Studies  
             | Direcção Nacional de Estudos Económicos e Financeiros |
| DNO          | National Budget Directorate  
             | Direcção Nacional de Orçamento |
| DNP          | National Planning Directorate  
             | Direcção Nacional de Planificação |
| DNPO         | National Planning and Budgeting Directorate |
| DPEF         | Provincial Directorate of Economy and Finance  
             | Direcção Provincial de Economia e Finança |
| DPPF         | Provincial Directorate of Planning and Finance  
             | Direcção Provincial de Plano e Finanças |
| HHBS         | Household Budget Survey  
             | Inquérito ao Orçamento Familiar |
| IMF          | International Monetary Fund  
             | Fundo Monetário Internacional |
| MEF          | Ministry of Economy and Finance  
             | Ministério de Economia e Finanças |
| MOF          | Ministry of Finance  
             | Ministério das Finanças |
| MPD          | Ministry of Planning and Development  
             | Ministério da Planificação e Desenvolvimento |
| MPI          | Multidimensional Poverty Index  
             | Índice Multidimensional da Pobreza |
| MTEF / CFMP  | Medium Term Expenditure Framework  
             | Cenaário Fiscal de Médio Prazo |
| PQG          | Five Year Government Programme  
             | Programa Quinquenal do Governo |
| PES          | Social and Economic Plan  
             | Plano Económico e Social |
| SISTAF       | State Financial Management System  
             | Sistema de Administração Financeira do Estado |
| SitAn        | Situation Analysis  
             | Análise da Situação |
| UGE          | Executing Management Unit  
             | Unidade Gestora Executora |
| UGBs         | Beneficiary Management Unit  
             | Unidade Gestora Beneficiária |
| UNICEF       | United Nations Children's Fund |
Executive Summary

The Government of Mozambique, with support from UNICEF, developed a mechanism with clear criteria for budget allocation to provinces during the drafting of the Medium Term Expenditure Framework (MTEF). Drawing up the 2013-2015 MTEF included a few changes in approach, in particular concerning the new focus on sectors and provinces rather than on individual government institutions.

Budget territorial allocations, from then on, were supposed to address geographical and social inequalities. To guarantee some level of fairness and predictability, the Government would draw up the MTEF (and the Budget Law) using a formula to allocate part of the budget to each province as a whole. The provincial government would then be in charge (in line with the decentralisation process and with the supervision of the then Ministry of Planning and Development) of distributing these resources among its various (provincial) institutions.

This study aims at shedding light on that matter, looking at how the budget is drafted, from the drafting of the MTEF (CFMP, as it is called in Mozambique) to the final execution of the budget, to see how and in what terms the above-mentioned formula is used, and how it informs and conditions the budget process.

The study was drawn up in four phases. The first phase consisted in analysing the Mozambique State Budgets before and after adoption of the territorial allocation formula (2009-2014). The focus of the first phase was the comparison of the real allocations to the allocations that would have resulted from application of the territorial allocation formula (the allocation in theory). The second phase consisted of semi-structured interviews with key stakeholders identified with the Government of Mozambique and UNICEF SPPIM. The information provided was useful for understanding how the process defined in Government Guidelines is actually working. In addition, the people involved could provide their insight for identifying the points of friction and the bottlenecks. The third phase was a validation workshop to test the findings of the first two phases. The fourth and final phase was drawing up the final version of the study that consolidates and integrates all comments delivered during the workshop.

The expenditure consists of two major components: recurrent expenditure and capital expenditure. The recurrent expenditure also breaks down into two main components: salaries (the wage bill) and goods and services. The wage bill is the most rigid part of the budget. Expenditure for goods and services is somewhat more flexible. Nevertheless, it finances the operations of existing, working institutions and therefore it can be scaled up or down only to a limited extent. Externally financed investments imply some level of rigidity due to the condition set by the donor. Domestic investment is financed by government fiscal revenues, and is thus the most flexible part of the budget.

Until the drafting of the MTEF 2012-2014, the MPD and the MoF considered all budget vote holders singularly; it allocated resources based on their functions and activities.

The drafting of the 2013-2015 MTEF introduced a new focus on sectors and provinces using a mathematical formula to calculate the provincial allocation. The formula for provincial allocation tries to combine fairness with respect for two criteria: population and poverty with different relative weights (0.7 and 0.3 respectively). The provincial allocation formula can be applied only to flexible expenditure, namely the domestic investment component and the expenditure for goods and services.
The analysis of the Laws and Regulations about the State Government and sub-Government organisations and their respective powers shows that Sector Ministries define *Plans and Programmes*. These have to be implemented by lower echelons of the state, which must also allocate the financial resources needed, limiting Sector Ministries’ control over resource allocation to strategic sector development programmes. Moreover, there is no provision in the law that links – or conditions – territorial allocation to a uniform level of services that subnational governments have to deliver.

The methodology for drawing up the MTEF and the MTEFs themselves mention that the allocation to provinces is done using the formula previously presented. The methodology for drawing up the Budget and the *Documento de Fundamentação* of the Law mention that it is prepared in line with the principles and policies stated in the MTEF, but they do not mention the use of any formula for allocating resources to provinces.

The Financial Year in Mozambique is the same as the calendar year. The calendar for the Budget is well known and is generally respected. MEF has a simple macroeconomic model for the forecast of key macroeconomic variables. The budget documentation includes similar projections for a one-year period. Normally these projections differ significantly from those used for drawing up the MTEF.

Based on these projections, the Government defines three macro-categories of expenditure in the following order: (i) Salaries and Pensions, (ii) Domestic and foreign debt servicing, (iii) Domestic Investment and Goods and Services. In addition to these three categories of expenditure, the Government can count on Foreign Investment.

The envelope for salaries must first finance the wages of all public servants who were on the payroll the previous year. The resources left over fix the number of new staff who can be hired that year. During recent years, Education, Health and Security and Defence (Police and Armed Forces respectively) were the only sectors that could hire staff.

Hiring for the army and the police is centralised and distribution of personnel across the territory intends to improve the ratio between the population and the police. In the Education and Health Sectors, the needs are identified based on the services to be provided to the population (the population/services ratios have clear targets spelled out in the matrices of the PQG and of the PES).

The overall macro envelope for goods and services is based on historical trends. On the one hand, the allocations of the previous year are ensured because what is functioning one year needs to function the following year. On the other hand, every year additional resources are available and are devoted to finance expenditure for Goods and Services. This envelope is further divided in two: the first part is distributed to sectors at central level; the second is divided to provinces according to the *formula*. The Provincial Government, via the DPPF (now DPEF) allocates resources for Goods and Services to Provincial Sector Directorates and to District Administrations. The criterion is ensuring historical spending trends. These allocations are budget limits, are indicative and are subject to change. Based on these, each institution draws up its three-year expenditure forecasts.

In June-July, for drawing up the Budget, the MEF assigns to each institution (UGBs/UGEis) the Budgetary limits directly inscribed in the tool for drafting the budget (MEO). These limits are based on the proposals for the MTEF. These limits could be (are) higher than those given for drawing up the MTEF. Institutions do a more accurate definition of their needs that can be accommodated within the new limits. During this
phase, the MEF allocates additional resources to those Provinces that will host special events.

The Line Ministry does not negotiate for the sector budget but only for its own budget. In June-July, the MEF gives budget limits to every budget vote holder in the entire Sector – Ministries, Provincial Governments and District Administrations and Services – at the same time. With this timing, it is difficult to harmonise between sector priorities and territorial planning (plans of provincial governments and district services). The overall allocation to sectors is known only \textit{ex-post}. It is the result of the aggregation of the allocation to all sector institutions (UGBs).

For the provinces, the MEF publishes, in May of each year, the initial limits for G&S for all Provinces. The MEF’s instructions say these resources have to finance expenditure with \textit{high social impact}: that is, 64\% of the funds must be directed to the Social and Economic Sectors. The Provincial Governor ensures that the resources are allocated to high impact projects. The DPEF allocates initial limits to spending units (provincial directorates and district governments) by considering the spending trends of the last three years, the pressure on available resources and the proposals from sectors and districts. Yet Provincial Governments would like the central ministry (MEF) to give clearer instructions and guidelines on how to allocate resources to sectors.

The same criteria defined for distributing resources to finance Goods and Services apply, \textit{mutatis mutandis}, to the resources used to finance Domestic Investment. In particular, Districts do not receive resources from this budget line. Externally financed projects are inscribed at central level; if there is a need for counterpart contributions, they are drawn from the capital budget at central level. Yet it is observed that the figures in the budget deviate from the allocation according to the criteria (the formula).

Domestic Investment is allocated to Provincial Directorates with the same criteria used for Goods and Services, that is, 64\% of resources have to finance high social impact activities. The PQG is the reference document. The Provincial and District Governments plan and budget to meet the targets set. The Sector Ministries inscribe the capital programmes in the budget and the PES (as defined in the PQG). Institutions prepare projects that will be inscribed under the umbrella of a general programme.

MINEDH decides the allocation of FASE resources to programmes with specific criteria and with various priorities. The first priority is expenditure for schoolbooks. Later all ongoing commitments are financed. Then MINEDH allocates resources to all the decentralised programmes, ADE, Teacher Training, and Supervision, School Homes, and School Construction. What is left is used to finance other priorities as defined in the Operational Plan.

MISAU manages ProSaude funds at central level. MISAU divides ProSaude funds into two parts. One part is managed at central level, while the other is allocated to the provinces. Central level resources finance, among other things, drug purchases. The allocation to provinces is based on population with some correction to accommodate the provincial envelopes for temporarily hiring staff in addition to those that are going to be absorbed by the system. These staff are called, although incorrectly, Fora do Quadro (“outside the staff table”).

From analysis of the data, it emerges that the formula for equitable allocation was used \textit{only} at the beginning of the preparation of the MTEF 2014-2016. It is applied \textit{only} to the
increment of domestic capital resources devoted to provinces. The result is that in year n+1 each province gets what is stated in the budget law of year n, plus a share of the increment of resources available; this share is distributed using the formula for equitable territorial allocation. The data also show that the resources involved in this exercise are too scarce to expect rapid convergence to equitable allocation to territories.

The allocations to provinces in the Budget have large discrepancies if compared with the allocation-in-theory. During the year, the allocations can change; reallocations do not appear to be done according to the formula. Indeed the formula is used only at the initial stage, but, during the drafting of the budget, the real costing exercise – or the real requests from budget vote holders – are factored in and financed.

The budget is the result of a spread out, distributed process where every budget vote holder is responsible for its tiny bit of the budget, which is later summed up with all other pieces. Everything in principle is held together by the PQG, but the MEF’s capacity to ensure coherence could already be stretched beyond its limits.

Within the PQG, the instructions that 64% of the budget needs to be spent on the Economic and Social Sectors are too vague and can accommodate expenditure that might not be strategic or opportune.

The envelopes for sectors (and programmes) are known only ex-post, at the end of the budgeting. It seems that the government is not harnessing the opportunity to influence (or condition) budget allocation at the beginning of the process and actively drive it.

The responsibilities of the Governor with respect to service provision might be better defined and translated in specific instructions to the provincial government. This could help the provincial governments in planning, and also help hold governors and administrators accountable against specific instructions and minimum standards. The disaggregated components of the MPI could be factored in a formula for suggesting budget allocation and linking inputs to policies tackling poverty.

The definition of standardised services and functions with standard (operational) costs could ease the budgeting of recurrent functions and make it equitable, transparent and more efficient. In addition, and no less important, it would help – all levels of – the government focussing on capital expenditure as a means for reducing provincial (territorial) imbalances in all sorts of infrastructure. The management of Human Resources also deserves particular attention because it plays a fundamental role in the minimum standard service provision. Fairness in HR management would translate into budget fairness.

The Government could programme capital expenditure – both at central and provincial level – with a longer term perspective (three years), with envelopes devoted to sectors and to specific projects so that it would be possible to work around the limits imposed by the yearly budgetary resources. The MTEF and the part devoted to investment would need to be strengthened, focussed and rigorously scrutinised.
1. **Introduction**

In 2006, the Government of Mozambique, through the then National Directorate of Studies and Policy Analysis (Direcção Nacional de Estudos e Análises de Políticas – DNEAP), with support from UNICEF, undertook a study entitled “Territorial Budget Allocations in the Health, Education and Water sectors of Mozambique: An analysis 2003-06”. The objective of this “budget allocations” study was to analyse provincial expenditure on the key social sectors of Health, Education and Water for the period 2003 to 2006 and to understand through which channels funds reached provinces, how the provincial allocation decisions were made, and what criteria were used by the decision-makers.

The key findings of this study indicated that there were large variations in provincial allocation and execution of resources. The most populous provinces received fewer resources per capita during the period of the analysis (UNICEF 2006).

The study provided a set of recommendations, including one addressing the Medium Term Expenditure Framework (MTEF) methodology, i.e. the inclusion of an explicit provincial dimension into the MTEF. The then Ministry of Planning and Development (MPD) and the Ministry of Finance used the findings of the study to revise the methodology of the MTEF to include the provincial dimension. Before the inclusion of a provincial dimension in budget allocation criteria, it seems that the key decision factors in allocating resources to the provinces were historical allocations and the ability to raise revenues and to execute resources.

UNICEF then provided support to the key ministries to draw up a Medium Term Expenditure Framework (MTEF) that contained clear criteria for provincial budget allocation. The drafting of the 2013-2015 MTEF included a few changes in approach, particularly concerning the new focus on sectors and provinces rather than on individual government institutions.

Budget territorial allocations, from then on, were supposed to address geographical and social inequalities. To guarantee some level of fairness and predictability, the Government would draw up the MTEF (and the Budget Law) using a formula to allocate part of the budget to each province as a whole. The provincial government would then be in charge (in line with the decentralisation process and with the supervision of the then Ministry of Planning and Development) of distributing these resources among its various (provincial) institutions.

**Scope of the Analysis, justification and methodology**

This study aims at shedding light on this, looking at how the budget is drawn up, from the drafting of the MTEF (CFMP as it is called in Mozambique) to the final execution of the budget, via the crucial stage of preparing the draft budget.

The analysis looks at how and in what terms the above-mentioned formula is used, and how it informs and conditions the budget process. In addition, the study tries to identify bottlenecks that limit the Government’s room for manoeuvre. This stocktaking exercise offers a snapshot of the current situation to prompt a reflection. The ultimate goal is to help the Government of Mozambique improve the budget process to assure that it promotes equitable service provision and coherent longer-term sector (equitable development) policies.
The latest UNICEF Situation Analysis of Children in Mozambique highlighted that significant territorial disparities in outcomes for children persist (UNICEF 2014). On the other hand, UNICEF’s Budget Briefs have highlighted consistent disparities in provincial budget allocations. The study aims to analyse what criteria the Government uses to allocate the State Budget to provinces and sectors.

The then Ministry of Planning and Development produced and used the above mentioned formula starting in the 2013-2015 MTEF. However, it is unclear whether and to what extent the then Ministry of Finance – in particular the National Budget Directorate (Direcção Nacional do Orçamento – DNO) – adopted and used the same formula, or something of the sort, for preparing the draft State Budget.

On the sector side of the equation, the Government, with UNICEF support, also aims to understand better how resources are allocated to social sectors/sub-sectors, with an emphasis on Health, Education, Social Welfare, and Water and Sanitation; UNICEF wants to shed light on the decision-making processes and mechanisms that drive budget preparation. In simple words, the study aims at understanding what are the de facto criteria governing budget allocation.

This analysis involved four phases. The first phase consisted of analysing the Mozambique State Budgets before and after adoption of the territorial allocation formula (2009-2014). The objectives of this phase were: (i) identification of allocation patterns to sectors and to the various levels of government (central, provincial, district), (ii) comparing them over the years and (iii) comparing the real allocations to the allocations that would have resulted from the straightforward application of the territorial allocation formula (the allocation in theory).

The second phase consisted of semi-structured interviews with key stakeholders in the budget process, using a questionnaire, based on what was learned during the first phase, as a guide for the interviews. Interviewees were informed and competent people in key functions in Ministries and Provincial Governments identified as key stakeholders during the first phase of the analysis. The information acquired during this phase was useful for understanding how the process defined in Government Guidelines is actually working. In addition, the people involved could provide their insight for identifying the points of friction and the bottlenecks.

The third phase was a validation workshop to test the findings of the first two phases, using a draft document as a basis for discussion.

The fourth and final phase was drafting the final version of the study, which consolidated and integrated all comments made during the workshop.

Section 2 describes the rationale for the formula that MPD drew up for calculating equitable budget allocation. Section 3 briefly illustrates the legal framework that defines and regulates the way the State is organised and the way that the Government budgets and spends the resources available. Section 4, drawing from the results of the fieldwork interviews with key stakeholders, illustrates the way Planning and Budgeting are working. This is a crucial section which clarifies the extent to which the equitable criteria have sunk into the planning and budgeting at all levels of the Government structure. Section 5 presents an analysis of the data available about budget allocation to provinces; it takes into consideration the different stages of the budget cycle, from drawing up the MTEF to the end-of-year execution. In particular, there is a comparison between the observed allocation (or
expenditure) and the allocation in theory (as it should have been, if the formula was used), with the figures presented in the budget documents in the period 2010 – 2014. It is there that the analysis tries to draw conclusions on the way the formula is used and the extent to which it helps allocating resources in a sounder way. Finally, section 6 tries to draw overall conclusions, pointing out those parts of the planning and budgeting process that could be improved to give the Government of Mozambique an instrument for ensuring that the budget promotes equitable service provision and coherent longer-term sector (equitable development) policies.

2. **Budget structure and criteria for territorial budget allocation**

The budget consists of two components: the financing side and the expenditure side. For the purpose of this analysis, it is worth illustrating what constitutes the expenditure side. Figure 1 shows the various budget components.

The expenditure consists of two major categories: recurrent expenditure and capital expenditure.

There are also two major components to recurrent expenditure: salaries (the wage bill) and goods & services. The wage bill is the most rigid part of the budget as the recurrent budget devoted to salaries depends on pre-existing conditions: public servants cannot be hired or fired easily, and the construction of schools and hospitals, where these staff should work, normally takes time. For the labour-intensive social sectors (such as Health and Education), this is also the largest share of their respective budgets. The management of human resources, and their allocation to specific territories, can generate large shifts in the territorial distribution of financial resources. The analysis of the management of human resources in sectors and their distribution into territories is beyond the scope of this analysis. Yet, a study of these aspects could be a useful complement to this analysis.

The management of the resources allocated to finance expenditure for goods and services is rather more flexible than the previous one because it is linked to the level of services to be delivered by the institutions. Nevertheless, it finances the functioning of existing, working institutions and therefore it can be scaled up or down only to a limited extent.

In the Mozambican Budget, capital expenditure is classified according to the source of financing, consisting of two main budget lines: the external (or foreign) investment and the internal (or domestic) investment (Government’s own resources, such as fiscal revenues). According to the donor-chosen aid modality, external investment can be split in two: Programmatic Aid (SWAps, Sector Budget Support, and Common Funds) or Project aid. Either modality

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1 This section, regarding the formula for equitable territorial allocation, draws from UNICEF 2012B.

2 This component consists of all expenditure financed with resources gathered outside the country. It includes donors’ funding, South-South Cooperation, Other Official Funds – if any – as well as all expenditure which incurs commercial debt issued in foreign currency. The relative weight of traditional donors, SSC and commercial debt has changed along the years with the latter two gaining importance in comparison with the former.
Figure 1: Expenditure side of the budget.
implies some kind of rigidity in the use of resources. Finally, the domestic investment is the most flexible expenditure.

The budget cycle for the preparation of the budget for year n starts in February\(^3\) of year n-1 with the drafting of the MTEF. Until 2014, before MPD and MoF were merged (in early 2015), the National Planning Directorate (DNP) in MPD, issued guidelines for all institutions for drawing up the respective plans for the following three years, to feed into the Medium Term Expenditure Framework (MTEF). In June of year n-1, the then MoF – more specifically the National Budget Directorate (DNO) - issued guidelines for all institutions to prepare the respective budget for year n. The DNO harmonised and consolidated all the proposals into one document, the Draft Budget, which the Government submits to Parliament for discussion and approval. Once parliament approves the Budget, the President promulgates the Budget Law at the beginning of year n. The processes are still the same but, since 2015, conducted by the newly formed Ministry of Economy and Finance (which still has the two aforementioned Directorates unified in the Planning and Budget Directorate). Drawing up the MTEF, however, is now the responsibility of the National Directorate for Economic and Financial Studies (the former DNEAP).

Until the drafting of the MTEF 2012-2014, the MPD and the MoF considered all budget vote holders singularly (every government unit that manages a share of the budget, Unidade Gestora Beneficiária – UGBs – or Unidade Gestora Executora – UGEs); it allocated resources based on their functions and activities. This was extremely time consuming. In addition, it was always questionable to what extent staff at central level had the information, the knowledge and the capacity to understand the needs of each individual budget unit.

Drafting the 2013-2015 MTEF included a few changes in approach. In particular, it introduced the new focus on sectors\(^4\) and provinces rather than on individual government institutions. This fitted better with the process of devolving responsibility to provincial governments and with the rationale of strategic planning, core to the MTEF exercise.

The MPD started using a mathematical formula to calculate the provincial allocation. Formulas were not new in the system. Municipalities and Districts (at least for the \textit{7 million plus} allocation – budget allocated to the districts with the aim of eliminating hunger and creating jobs) receive their budget based on their population, poverty rate, tax collection capacity and area\(^5\). Allocation of resources for capital spending in the districts follows similar criteria.

The formula for provincial allocation tries to combine fairness with respect to two criteria: population and poverty. The first objective of using a formula is to reduce disparities; it aims at ensuring a fair distribution of resources for all people regardless of the area and the province in which they live. In the formula, the element that factors in the population of the province has the relative weight of 0.7. The Mozambican population experiences significant disparities in term of well-being, poverty and deprivation. Thus, the second

\(^{3}\) At district level, the process can start even before, in December of year n-2, with drawing up the PESOD (District Economic and Social Plan and Budget).

\(^{4}\) The use of the word sector is somewhat misleading. It will become clearer after the following section.

\(^{5}\) See methodologies for drafting the MTEF.
objective of the equitable budget allocation formula is to allocate resources for reducing, over time, geographical disparities in living conditions. To factor well-being into the formula, some measure of poverty was needed. The poverty index adopted went beyond simple consumption poverty; it took into account multiple deprivations and was based on the methodology devised by Alkire and Santos (2010). This *Multidimensional Poverty Index* (MPI) is the second element in the provincial budget allocation formula with the relative weight of 0.3.

![Figure 2: MPI and population indexes and formula budget share for territorial allocation.](image)

For more details on how the MPI is calculated, see UNICEF (2012). Figure 2 shows the relative weight of the two components for each province (left-hand scale) and the resulting provincial budget share of the resources that should be allocated to each province (right-hand scale). It is worth emphasising that, according to this methodology, the provincial budget share would change very little over time. The MPI uses Household Budget Survey data (in this case from 2008) and the population trends are estimates based on the projections from the 2007 census. Using the formula, Zambézia, Nampula and Cabo Delgado should consistently take the largest shares of resources, while Maputo City should take the smallest.

Such a provincial allocation formula can only be applied to flexible expenditure, namely the domestic investment component and the recurrent expenditure for goods and services because, as argued earlier, the expenditure for salaries cannot be scaled up or down on a yearly base and the externally financed expenditure has to comply – more or less depending on the aid modality – with donors’ requests.

Section 5 below illustrates the results of the comparison of the *allocation-in-theory* with the *de facto* budget allocation to provinces as reported in the budget documents. That allows us to draw some conclusions on the effectiveness of the formula in helping the government distribute budget resources to territories in a fair, sound and equitable way.
3. **Legal Framework**

This section aims at clarifying the responsibilities of sub-national governments in terms of administration of public resources and supply of public goods and public services. In this respect, it is worth seeing what provisions are in the law that can influence, condition, and link budget allocations to the delivery of public services.

In the period under analysis, two different Ministries oversaw planning and budgeting. The Ministry of Planning and Development (MPD) was responsible for planning, and the Ministry of Finance (MoF) was responsible for budgeting. In 2015, a new government took office, and merged the two ministries into the Ministry of Economy and Finance, which now oversees both processes.

The analysis of the Laws and Regulation about the State Government and sub-Government organisations and their respective powers shows that:

- Sector Ministries define *Plans and Programmes*. These have to be implemented by lower echelons of the state (Provincial Governments and District Administrations). The lower echelons of the Government are responsible for and have to allocate the financial resources needed for implementing sector policies at territorial level. This rather limits the Sector Ministries’ control over allocation of resources to strategic sector development programmes.

- The central government, via its subnational level, has full responsibility for providing a uniform level of services across the country (and providing for their uniform funding). Yet, there is no provision in the law that links or conditions territorial allocation to a uniform level of services that subnational governments have to deliver.

- Provincial Governors are responsible for drawing up the provincial social and economic development plan – which should be in line with the central plans. Therefore, they can advocate and lobby for (higher) provincial allocations for all sectors.

- Provincial Governors have the responsibility for implementing Government Plans and providing services to the population. Yet, District Governments – which in turn are independent bodies – have the direct responsibility to deliver services.

The analysis of the Laws and Regulations about the State expenditure framework shows that:

- The law gives the institutions that oversee the drafting of the MTEF and of the State Budget the responsibility to assist the other institutions in drawing up their respective proposals.

- The methodology for drafting the MTEF, and the MTEF itself, mention that the allocation to provinces is done by using the formula that is shown in section 2 of this study.

- The methodology for drawing up the State Budget and the *documento de fundamentação* of the Law, mentions that it is prepared in line with the principles and policies stated

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6 For more details see Appendix I.
in the MTEF, but does not mention the use of any formula for allocating resources to provinces.

This section introduced the actors in planning and budgeting, and their respective roles. The following section will describe how they interact and compete for the allocation of resources.

4. **Planning and Budgeting**

The Fiscal Year in Mozambique is the same as the calendar year. The calendar for the State Budget is well known and it is generally respected (PEFA 2015, PER 2014); it is summarised in Table 1.

MEF has a simple macroeconomic model for the forecast of four key macroeconomic variables (IMF 2015) and the PEFA 2015 argues, “There is no evidence of the use of behavioural macroeconomic models or financial programming models in order to set fiscal targets within the CFMP”.

**Table 1: Calendar for planning and budgeting in Mozambique. Adapted by the author. Source PER 2014 and PEFA 2015.**

<table>
<thead>
<tr>
<th>Period</th>
<th>Process / Activity</th>
</tr>
</thead>
<tbody>
<tr>
<td>Jan-Mar</td>
<td>Districts analyse their plans and gather data for costing their needs.</td>
</tr>
<tr>
<td>Feb – May</td>
<td>Preparation of macro-fiscal projections and expenditure limits, Technical/methodological assistance to Sectors and provinces by MEF and preparation and drafting of the CFMP (MTEF) document</td>
</tr>
<tr>
<td>By May 31st</td>
<td>The document is approved by the Council of Ministries and MEF issues the Budget Circular (‘orientações’) and PES/OE drafting guidelines to sectors (ministries) and provinces (Provincial Governors), accompanied by the overall ceilings in the approved CFMP.</td>
</tr>
<tr>
<td>Jun-Jul</td>
<td>Planning meetings for Sectors, Provinces and Districts; Coordination at the sector, province and district level for the distribution of ceilings between subordinate UGBs.</td>
</tr>
<tr>
<td>August</td>
<td>Uploading of the indicative budget ceilings in e-SISTAFE in MEO by DNPO, opening of the system and detailed OE formulation in the MEO by each UGB.</td>
</tr>
<tr>
<td>August</td>
<td>Provinces, Districts and Sectors submit their budget proposals. DNPO consolidates them.</td>
</tr>
<tr>
<td>September</td>
<td>The State Budget (OE) and the Social and Economic Plan (PES) are submitted to the Council of Ministries (by 15 September) and to the Parliament (by the end of the month) for approval.</td>
</tr>
<tr>
<td>By 15 December</td>
<td>Approval of the State Budget and the PES.</td>
</tr>
</tbody>
</table>

The CFMP is therefore based on simple forecasts of key macroeconomic variables for the following three years. The State Budget documentation includes similar projections for a

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7 The key variables are real GDP growth rate, nominal GDP, the exchange rate and the inflation rate, which is used as a proxy for the GDP deflator.
one-year period. Normally these projections differ significantly from those used for drawing up the CFMP.

For the purpose of this study, it is relevant to note that the Government draws up, with advice from the IMF, the Statement of the Financial Position (Mapa Fiscal). In this document, the Government defines three macro-categories of expenditure in the following order: (i) Salaries and Pensions, (ii) Domestic and foreign debt service, (iii) Domestic Investment and Goods and Services. In addition to these three categories, the Government can count on Foreign Investment. The analysis will try to explain how the government allocates the resources available for development expenditure8:

The envelope for Salaries and the criteria for hiring new staff

The Council of Ministries sets the wage policy for the following three years. It takes into consideration the indication from the IMF on international standards and benchmarks for this expenditure. This leads to a budget limit (a wage cap or fiscal space) for wage expenditure.

- Each year the MEF, using key macroeconomic variables, projects possible increases in the wages bill9. Based on these forecasts, the MEF budgets resources to ensure payment of all public servants who have contracts with the State. Within the resources left available for wages, MEF sets the limit for new hiring, as well as career progression and changes for existing public servants10. MEF only allocates resources for career progressions and promotions (in a flexible manner) if there is fiscal space; there are, in fact, more public servants with the right for progression and promotion, as per the regulation, than resources available. This does not have any impact on the public debt (although it should).
- (i) Education, (ii) Health and (iii) Security and Defence (Police and Army respectively) are the sectors with highest priority11 and therefore, in recent years, have received resources from MEF to hire staff. The hiring of extensionists in the Agriculture Sector is also a priority, though to a lesser extent than the other three mentioned. In recent years, the other sectors have not hired new staff. Such differentiated treatment should not be granted in the future.
- There are two stages in setting the limits of the wages envelope: during the drafting of the MTEF – with the Macroeconomic data available in February – and later during the drafting of the State Budget – with data available in July-August. Data in this latter period of the year are more recent and allow more accurate resource projections, which leads to higher limits, which in turn opens fiscal space for hiring more staff.
- Once MEF defines the wages envelope (Política Salárial para o ano), this information is passed on to Sector Ministries.
- The process for hiring new staff in the police and in the army is centralised. Personnel needs are identified countrywide, then, personnel are hired centrally and

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8 Expenditure on domestic and foreign debt servicing will not be considered because it cannot finance development expenditure.
9 The salary policy is agreed with the Labour Consultative Commission (Comissão Consultiva do Trabalho).
10 These are known as “administrative acts” (actos administrativos).
11 Several budget circulars. Confirmed also during the interviews with stakeholders.
UNICEF Mozambique

dispatched throughout the country. The Interior Ministry tries to reduce the population/police ratio in the entire territory.

**Box 1: Salaries in the education sector.**

The wages envelope is the bulk of expenditure in the education sector. The allocation of Human Resources to territories is crucial for equity in terms of outcomes and of course, it affects the budget. MEF gives MINEDH its quota of new hires. MINEDH analyses provincial proposals for new hires; new Human Resources are distributed in order to minimise the pupil teacher ratio by provinces.

The volume of the wages envelope per province in year \( n \) depends on three factors: the number of teachers in year \( n-1 \), the education structure of the province, and the newly hired teachers. The combination of the first and second factors is crucial for defining the envelope. In particular, teachers’ remuneration depends on the level of education in which they teach. The analysis of the criteria for human resource allocation criteria is beyond the scope of this analysis. Nevertheless, what this study suggests is that any budget analysis that tries to draw conclusions on whether the budget allocates resources to provinces in a fair way, cannot be limited to overall allocation per capita, but has to factor in the structure of education, and its inherent costs.

The sector staff use a tool for identifying the desirable number of teachers. This is based on a database called EduStat that is updated after the collection of data about the expected number of pupils for the following year (levantamento 3 de Março).

The drafting of the wages bill takes into consideration the location of the school, the category of the staff and the level of responsibility. The deficit of teachers translates into extra hours for current teachers.

Provincial Government (DPEDH) allocates personnel to districts and schools. Administrative staff are allocated to district services. The DPEDH is responsible for the efficient and effective management of HR in terms of sound distribution of teachers in the territory of the province.
The Human Resources for the sector are notably insufficient. The Provincial Health Directorates, through the District Health Services (SDSMAS – Serviços Distritais de Saúde, Mulher e Acção Social – District Services for Health, Women’s Affairs and Social Welfare) identify the specific HR needs, based on specific indicators. The objective is to minimise ratios such as population per number of health staff, population per number of doctors, population per number of nurses and territory-specific mortality, prevalence and morbidity indicators. The structure of the Health Sector Network is also a parameter factored in to the identification of the needs.

The IdFSs (Institutos de Formação de Saúde – Provincial Health Training Institutions) organise courses for training staff to respond to the specific needs (to be contracted in regimen specific). The training courses take three years to train staff; these, once graduated, are sent to districts and health units to close the gap identified (three years before). In case of urgency and convenience, Public Servants can start working and receive a salary whilst the bureaucratic procedure takes place. Indeed the bureaucratic procedure for hiring staff might delay trained people from starting work. People hired in this way are Fora do Quadro – FdQ (Outside the staff table). When the bureaucratic procedures are completed, their contracts are absorbed into the normal payroll.

The wages envelope for the sector for the year $n+1$, can be divided into three broad categories: (i) the envelope for the regular staff of the sector, (ii) the envelope for new hires and (iii) the envelope for those who, once they have received specific training, for reasons of urgency and convenience, are immediately hired.

The first category is the largest, while the second and third are smaller and related essentially to the same group of staff; the only difference between the two is the source of financing: the second category is financed by fiscal (internal) revenues, while the third is financed by ProSaude funds. It is practice in the sector that staff are first contracted FdQ and their salary starts being paid from the budget funds only when they are absorbed as public servants (no quadro).

There are indication that not all staff are absorbed in one year, suggesting that there is a mismatch between the resources allocated by MEF for new hires in the sector, the people trained, the personnel hired FdQ and, of course, the identified HR gap.

When assigning the staff to a specific district, they are given, as far as possible, the chance to choose where to stay. If there are more candidates for the same position, the hires are done on a competitive basis.
• In the Education and Health Sectors, the needs are identified based on the services to be provided to the public (the ratios of population/services have clear targets spelled out in the PQG and PES matrices). District Services identify the Human Resources needed per level of specialisation (qualification). The provincial need is the aggregation of district gaps. In addition, if there are newly built infrastructures in the Health Sector (health centres, hospitals, etc.), staff are requested and dispatched to make them functional.

• The main driving force for the growth of the wages envelope is the need to provide services to the public. Population dynamics play a crucial role, which can be difficult to grasp.

• In other sectors, the so-called “administrative acts” (promotions, salary adjustments and changes in career) take priority over new hires.

Criteria for Territorial allocation of resources for spending on goods & Services

The overall macro envelope for goods and services is based on historical trends. On the one hand, the allocations for the previous year are ensured because what is functioning one year needs to function the following year. On the other hand, every year additional resources are available and are devoted to financing expenditure for Goods and Services. What follows applies to the additional resources unless otherwise specified.

• During the drafting of the MTEF, MEF produces the first estimates of the resources available for Goods and Services. The larger part is immediately allocated according to the spending pattern of the last Budget. The second part – the additional resources – is divided, once again based on historical needs, between Central level Expenditure and Provincial level Expenditure. Each Provincial Government receives its share based on a formula that takes into consideration Population and the Multidimensional Poverty Index (see paragraph 2).

• Once these two components are defined, they are allocated to sectors and provinces. Each Ministry allocates it to its cost centres (UGBs/UGEs). The Provincial Government, via the DPEF, allocates resources for Goods and Services to Provincial Sector Directorates and to District Administrations. The criterion is ensuring historical spending trends. These allocations are budget limits, they are indicative and they are subject to change. On this basis, each institution elaborates its three-year expenditure forecasts.

• In June-July, when drafting of the Budget begins, MEF assigns to each institution (UGBs/UGEs) the Budget limits. These limits are based on the proposals for the MTEF. They are inscribed in the e-SISTAFE Modulo de Elaboração do Orçamento –

12 While the Financial Position Statement (Mapa Fiscal) is being drawn up, the IMF provides inputs for guaranteeing macroeconomic stability.
13 It is not clear how the envelope for Goods and Services is divided between Central level and Goods and Services for the provinces.
14 Provincial staff are aware that MEF uses a formula to calculate budget limits, but these criteria are often confused with the criteria used to allocate the FIIL – Fundo de Investimento de Iniciativa Local (Local Initiative Investment Fund).
15 The word used in Government documentation and by Government staff is indeed sector, which is rather misleading. Resources are allocated to central level sector ministries and to provincial governments. The MTEF and the budget are drawn up based on government levels and not according to sectors.
MEO (Budget Drafting Module). At this point of the year, more up-to-date macroeconomic forecasts are normally available, and thus limits could be higher than those given when drafting the MTEF.

- During the drafting of the budget proposals, institutions do a more accurate costing of their needs that can be accommodated within the new limits\(^\text{16}\). During this phase of drafting, MEF allocates additional resources to those Provinces that will host special events – such as the school games (jogos escolares)\(^\text{17}\).

- If lower echelons of government acquire spending capacity, it is possible to revise the historical trends, extract the volume of expenditure that once was done at higher government level, and reallocate it to the lower levels. This mechanism makes it possible to consider deconcentration of expenditure to lower levels of government.
  - The Government has set targets for Fiscal deconcentration. One could argue that the process is rather slow.
  - It was mentioned that in 2016, considering that 2014 and 15 were two outliers in the historical trend, the budget allocation to provinces was done by applying the formula to the whole envelope of Goods and Services (not only to the incremental share of resources)\(^\text{18}\).
  - There is the possibility of reconsidering the budget allocation for Goods and Services based on a new need assessment and not on historical trends (orçamento com base zero).
  - If there are new institutions or government bodies (hospitals, schools, tribunals), the allocation to these will affect the allocation to the provinces where they are located. It will affect the territorial symmetry or asymmetry.

**Sector Specificity**\(^\text{19}\)

The Central Line Ministries should have higher influence in the allocation to the sector as a whole, but this is not the case. The Line Ministry negotiates only its own budget, the one of its UGBs and therefore administered by it, not the sector budget. In June-July, MEF gives budget limits to every budget vote holder in the entire Sector – Ministries, Provincial Government and District Administrations\(^\text{20}\) and Services – at the same time. With this timing, it is difficult to harmonise between sector priorities and territorial planning (plans of provincial government and district services). District Administrators receive budget limits for District Services – which are also the final service providers – without consulting the respective line Ministry. If the allocation were given to the sector, then the sector line ministry could influence the allocation to territories. The overall allocation to sectors is

\(^{16}\)The institutions’ Budget proposals play a crucial role in the final allocation.

\(^{17}\)It would be better to spell out these resources as well as any other expenditure linked and earmarked to specific exceptional events (such as “open presidencies” - presidências abertas - and others), as exceptional resources linked to a specific events (programmes). This would increase transparency as well as ease the planning of those provincial governments that have to budget and account for the organisation of such events.

\(^{18}\)It was not possible to verify this statement: 2016 was outside of the period under analysis and at the time of the analysis, the MTEF 2016-18 was not publicly available.

\(^{19}\)This section is based on the interviews with personnel from the education sector.

\(^{20}\)Provincial Governments and District administrations receive their envelope. The provincial governments allocate resources to sector directorates. District administrations are similarly given from the Provincial Government a budget limit and distribute funds to their services. Finally, they administer those funds.
known only ex-post. It is the result of the aggregation of the allocation to all sector institutions (UGBs).

MEF staff do go to provinces to revise their proposals, in the light of national priorities, and to see if all needs – old and new institutions, as well as new events – are duly considered. Yet Sector Ministry staff are neither invited nor consulted during these harmonisation visits. The sector perspective is reduced since the limits set in the MTEF do not take into consideration the sector perspective.

As for Education, in districts, 94% of the budget is for wages; 6% for Goods and Services and is given to the institution. The Provincial Government allocates internal investment taking into consideration FASE allocation.

**Provincial Specificities**

The MTEF is a process that eases the drafting of the PES and Budget. The first year is translated in the budget, but the final destination of the envelope for Goods and Services is neither specified nor detailed.

In May of each year, MEF publishes the initial limits for G&S for all Provinces. The MEF instructions say these resources have to finance expenditure with *high social impact*, that is, 64% of the funds must be directed to the Social and Economic Sectors (the former priority sectors). The Provincial Governor ensures that the resources are allocated to high impact projects.

DPEF allocates initial limits to spending units (provincial directorates and district governments) by considering the spending trends of the last three years, the pressure on the resources available and the proposals from sectors and districts. There is not much discussion because the amount is limited. The additional funds – freed during the drafting of the budget – are distributed according to the previous year’s pattern. Yet Provincial Governments would like the central ministry (MEF) to give more definite instructions and guidelines on how to allocate resources to sectors.

The Provincial Government should allocate resources to sectors based on an internal negotiation: Yet the Sector Ministries define the priorities for the respective sector in their “Conselho Coordenador” (Coordinating Council) jointly with the Provincial sector Directors. Provincial Directors, therefore, should have to negotiate, during a Provincial Government session, resources to make sure that their sectors’ priorities are duly financed.

District Administrators try to influence the Provincial Governor for higher allocations. On some occasions, the Governor accompanied by two Administrators – representing all

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21 In the provinces, staff mentioned that MEF gives the provincial Government some discretion as long as the allocation falls in the range between 60 and 70%.

22 The PQG defines a set of sectors as the Social and Economic Sectors, which are the focus of its action. The indication is rather broad and vague, and any expenditure within any of these sectors might count as high priority, regardless of whether it is an expenditure for running a hospital in the countryside, or the fuel subsidy for the car of one of the provincial directors.

23 It was mentioned that the Provincial Governments use a formula for allocation, which was not shared with the author.

24 A better definition might be needed of the role of the provincial government in implementing sector policies.
administrators in the province – discussed the budget allocation to the province with the MEF.

The budgeting procedure starts before the budget limits are provided (before the end of May). Sectors and districts are invited to provide estimates to finance their needs. The Sector’s staff joins the DPEF staff member for drafting the budget. During drafting, the expenditure for G&S is further disaggregated and specified.

The Sector Directorates cost their needs (and budget for them) based on their criteria. For example, staff in the health sector, when estimating costs for cleaning and food needs in health service delivery units consider the average number of days a bed is occupied; similarly, staff of the education sector have sector specific criteria.

The provincial Government allocates resources to districts for G&S for Health Units. DPS is kept informed of this allocation. DPS allocates additional – external – funds (ProSaude, Danida) for similar reasons. SDMSAS and DPS plan the funds for the sector jointly. The budget allocation for District Hospitals is inscribed under the SDMSAS budget, but as independent budget line(s). Health Centres are also under the SDMSAS budget and their allocation is not segregated. The disaggregation of the budget of the several centres and health providers makes the programming easier as well as the monitoring, allowing cost analysis of institutions.

Criteria for Territorial allocation of Internal Investment Spending

- The same criteria defined for distributing resources to finance Goods and Services apply, mutatis mutandis, to the resources used to finance Domestic Investment resources. In particular, Districts do not receive resources from this budget line. Externally financed projects are inscribed at central level; if there is a need for counterpart contributions these are drawn from the investment budget of the central level. Yet it is observed that the figures in the budget deviate from the allocation according to the criteria (the formula). A possible justification might be the following: the formula is applied to the envelope of resources defined for the MTEF. During the drafting of the Budget - when there are new projections and likely new resources – the new resources are used to accommodate requests in excess of the limits set in the MTEF.

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25 What has been pointed out for goods and services applies to Domestic Investment: it is not clear how the overall envelope for Domestic Investment is divided between the Central and provincial levels.
26 Districts receive the Fund for Local Investment Initiatives – FIIL. These resources are distributed according to a formula that takes into consideration: population, district area, revenue collection capacity, poverty index. These funds are not the object of this analysis.
27 It would be very interesting to show, over the years, the volume of counterpart funds tied to externally financed projects.
28 See section 5.
29 This rather peculiar explanation is the more likely. In absence of clear criteria, this practice might weaken the credibility of the process and provide incentives for purposely budgeting in excess. It could also be that the drafting of the MTEF and of the Budget were headed by different people, leading to discrepancies.
• As for goods and services, there is the possibility of reconsidering the budget allocation of Investment based on a new needs assessment and not on historical trends (orçamento com base zero).

**Provincial specificities**

• The Domestic Investment is allocated to Directorates with the same criteria used for Goods and Services, that is, 64% of resources have to finance high social impact activities. Some sectors have higher social impact than others. The Provincial Government ensures – and holds directorates accountable – that directorates also allocate at least 64% of the resources to activities with high social impact. The PQG is the reference document. Provincial and District Governments plan and budget to meet the targets set. The Sector Ministries inscribe the Investment programmes in the budget and the PES (as defined in the PQG). Institutions draw up projects that will be inscribed under the umbrella of a general programme.

As for Goods and Services, after the preparation of the MTEF and based on it, MEF inscribes the new budget limits to UGB/UGE directly in the MEO. Institutions draft the PES and Budget and afterwards, there is a harmonisation meeting during a provincial government session.

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**Box 3: Investment in the Health Sector.**

The MTEF and the Budget are discussed during the national and provincial meetings for harmonising interventions and for ensuring sector coherence and perspective, in particular with regard to investments for improving the service provision network.

The Construction of infrastructures in the Health Sector is more complex than in the education sector. Provincial Directorates take the responsibility for the construction of infrastructure below a specific value (and complexity), whilst MISAU takes responsibility for the management of complex projects. The resources, drawn from the Domestic Investment envelope are allocated accordingly at provincial or at central level.

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30 In Zambézia, the Provincial Government financed the construction of apartments for doctors, and houses for judges. Such criteria might be perfected, because they are very generic and give the Governor large discretion.
Criteria for Territorial allocation of Foreign Investment Expenditure

With regard to the External component of the budget, the allocation is done at sector level by the sector line ministry: the MEF is not aware of whether they use any specific criteria.

FASE.

Box 4: Domestic investment in the Education Sector

In the Education Sector, the 2016 resources for School Construction and procurement for school furniture are included in the MINEDH's Domestic Investment envelope. The central level has stronger leverage with MEF, so MINEDH negotiated with MEF resources that are then allocated to provinces. The Domestic Investment resources are also used to finance district adult literacy programmes.

MINEDH distributes resources for school construction to provinces with internal (sector) criteria that take into consideration territorial equity. The construction, of course, takes place in the provinces. The province manages the projects and the contracts and accounts for them.

Provinces do try to devote other resources to school construction out of their domestic investment budget but the larger volumes are negotiated and allocated at central level.

The Provincial Government is asked to allocate resources according to national priorities, but the Governor – who is the owner of the territory – might allocate according to other different priorities – for example, the maintenance of secondary schools.

The Central ministry allocates domestic resources to complement this latter allocation but the process is not straightforward. It is worth illustrate it with an example. School desks are a 2016 priority. One province decides to allocate the entire domestic investment envelope to school desks. Another province decides to restructure the building of DPEDH and does not allocate anything to school desks. The allocation from central level to provinces for school desks is not only complementary but also takes into consideration incentives and disincentives to provinces. The Central Ministry uses the domestic investment to compensate the imbalances that the MEF criteria, and Provincial Government budgets can generate in the sector.

FASE Donors committed resources on the base of the Education Sector Strategic Plan with a vocation for financing Capital Expenditure. The Strategy is translated into an
Operational Plan\textsuperscript{31}. The planning cycle of FASE funds starts in February, like the other funds, but the information drawn up does not feed MEF’s MTEF. It feeds only MINEDH and the sector planning as well as the Provincial Government planning.

The first year of the Operational Plan is translated into the annual Activities Plan\textsuperscript{32} – PdA. The PdA is a strategic programmatic document for the MINEDH-Donors Partnership, indeed donors confirm their disbursements into FASE only when the PdA is finalised.

MINEDH decides the allocation of FASE resources to programmes with specific criteria and with various priorities. The first priority is expenditure for school books; this is managed at central level. Afterwards all ongoing commitments are financed. Then MINEDH allocates resources to all the decentralised programmes, namely: ADE, Teacher Training, and Supervision, School Homes, School Construction. What is left over is used to finance other priorities as defined in the PO.

Figure 3 \textbf{Error! Reference source not found.} shows the criteria used by MINEDH for the different programmes. These criteria are transparent and known to all stakeholders in the sector.

\textit{ProSaude}

The Partnership for Health is also based on the Strategic Plan for the Health Sector with the vocation of providing MISAU with resources that can be used to finance gaps. Indeed ProSaude funds are used for financing everything that cannot be financed with the limited

\textsuperscript{31} The Operational Plan is a three years rolling plan. It should be updated every year. This does not happen all the time for all the programmes of the strategy.

\textsuperscript{32} The PdA is a version of the PES, which shows how and by doing what, MINEDH meets the objectives set by the latter.
budget funds. In this sense, ProSaude is complementary to budget funds. It is used to finance FdQ, some component of infrastructure and G&S.

MISAU manages ProSaude funds at central level by MISAU. MISAU divides ProSaude funds into two components. One component is managed at central level, while the other is allocated to the provinces. These shares are 50-50% and appear to be rather stable over

**Box 5: The other sectors**

The experience of the budgeting of the Provincial Directorates of Gender, Children, Women’s Affairs and Social Welfare (DPGCAS) and of the Provincial Directorates for Public Works, Housing and Water Resources (DPOPHRH) could bring interesting lessons.

In the area of Social Services, the PQG defines the guidelines and the targets in terms of beneficiaries. These are further operationalised during the annual meetings organised by the Ministry and the Provincial Directorates.

The services are in the area of gender, child protection, assistance for the elderly and so on, but the actual service providers are independent, separate entities such as the National Social Welfare Institute– INAS – or private entities (including NGOs or religious institutions). MEF allocates resources to INAS for implementing the programmes and to SDSMAS for monitoring and oversight.

In the case of child protection, jointly with UNICEF, the Ministry has developed a standard of services in 7 different areas (mosquito nets, latrines, basic hygiene, education services, etc.). Those standards are both an indication for proper plan and budget resources for ensuring the standard and a guide for overseeing the service providers – if 3 out of 7 standards are met, the provider is authorised.

In the case of the DPOPHRH, there is a planning meeting twice a year to produce a nationwide plan. The meeting happens in May-June and November-December. Planning is driven by priorities, that is, the communities where the water wells are to be dug are selected based on the number of beneficiaries (as suggested by the district council). The provincial government prioritises the specific district. The District Administration (the SDOP) prioritises the specific community where the wells will be dug.

The Directorate’s recurrent costs, such as fuel expenditure and per diems, are calculated in accordance with the investment plan, the need to manage contracts and to supervise jobs. That means there is also a clear link between the contracts and the Human Resources needed in the Directorate. The budget of the Directorate appears to be fully programme oriented.
the years\textsuperscript{33}. Central level resources finance, among other things\textsuperscript{34}, drug purchases. The allocation to provinces is based on population with some correction to accommodate the provincial envelopes for FdQ. According to the interviews in the provinces, personnel FdQ appears to be the largest expenditure at provincial level.

ProSaude in Zambézia is allocated to districts based on historical trends. MISAU informs the Province about the allocation. ProSaude funds are decentralised to district level.

5. **DATA ANALYSIS**

This section will look at the data as reported in the government document and it will assess if, how and to what extent the budget allocations diverge from the initial equitable allocation. The section will present the volume involved in the exercise for distributing Investment resources to provinces, and the deviation of the allocation from the equitable allocation according to the formula.

**The data**

The MTEF 2012-14 started to inform the provinces of the allocation. The document presented the allocation to provinces from 2012 to 2014, alongside the allocation in the 2011 Budget Law. The document (see MTEF 2012-2014, footnote 15) mentions that the provincial population and the number of poor people formed the basis for allocation to provinces (with no more detail). The MTEF 2013-15 is the first document that refers to the territorial allocation formula for justifying allocation to provinces. Data are again presented in comparison with the previous year’s budget allocation. The same considerations apply to the MTEF 2014-16. The MTEF 2015-17 was not published in 2015, which was an atypical year since it was the year in which the new government took office.

As regards the Budget and its execution, it is worth remembering that once the Budget is approved, Parliament gives the Government the authority to reallocate resources from low performing to high performing institutions (within certain limits); in addition, unlike many other countries, in Mozambique the Budget is adjusted during the year. This

**Box 6: The role of Parliament and the Provincial Assemblies**

The Members of Parliament via local committees in territories should be aware of the needs of their areas. When they discuss and approve the PES and Budget they should be able to crosscheck that specific measures are budgeted to meet the needs identified.

The Provincial Assembly provides an appraisal (that can be positive or negative) of the Provincial PES and Budget. They then oversee the plan and hold the government accountable against the approved plan.

\textsuperscript{33} Source Sector budget analysis. It is not clear how the two shares are calculated.

\textsuperscript{34} ProSaude funds are also used to finance top-ups and incentives – which cannot be paid with Budget funds. While the rationale behind this is probably a retention policy, it was not possible to obtain more information on the criteria used to grant such top-ups and incentives. There are also staff FdQ that are working at central level.
implies that the allocation to provinces can change during the year. The data used for the analysis are the allocation to provinces for the period under analysis extracted from: (i) the MTEF, (ii) the Budget Law approved by the Parliament, (iii) the adjusted version of the Budget and (iv) the Government Ledger (Conta Geral do Estado – CGE).

The analysis will therefore be limited to the domestic investment component devoted to provinces.

The formula and how it can be used

The rationale of the formula is to distribute resources to provinces in an equitable way. The first decision the planner has to make is to choose the share of the budget that must be distributed according to the formula. This analysis considers two options for comparison: (a) the incremental option versus (b) the total envelope option.

In option (a) – the incremental option – the formula is applied only to the envelope of new additional resources as compared with the current year’s total provincial allocation (the difference between the expected resources available for provinces in year n+1 and the resources allocated to provinces in year n as per year n Budget). For convenience, from now on, when referring to these resources, they will be called the incremental budget.

In option (b) – the total budget option – the formula is applied to the entire budget devoted to provinces (all expected resources available to provinces for year n+1).

Once the volume of the envelope of resources for provinces has been decided, they are distributed to the provinces in fixed shares as shown in Figure 2. The allocation with option (a) would converge on the allocation with option (b), if and only if – the formula is applied consistently over time to both the MTEF and the Budget.

The period of application of the formula is too short to assess any sign of convergence. Nevertheless, it is possible to compare allocation in theory according to options (a) and (b) with the real allocations along the budget cycle. By doing so, it will also be possible to infer which is the government option (either (a) or (b)), whether the choice is enforced along the cycle and therefore if there is any step towards long-run convergence.

The MTEF

Table 2 below shows the amounts of the incremental budget, the overall provincial domestic investment budget, the overall government domestic investment and the total government expenditure in the period 2012-14. The table also presents the relative weight of the incremental budget, with respect to all the other envelopes. Finally, in the last two rows, it shows the weight of the provincial investment budget in the total State domestic investment and in total State Expenditure.

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35 This affects institutions and in turn, it affects sectors.
36 The number of years depends on the volume of the incremental budget.
37 The data presented are taken from three documents: the MTEF 2012-14, MTEF 2013-15, MTEF 2014-16. They correspond to the allocation in the first year of each period.
Table 2: Provincial allocation as per MTEF; source MTEFs, Author’s calculation

<table>
<thead>
<tr>
<th>MZN thousands</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incremental</td>
<td>(a)</td>
<td>1.129</td>
<td>630</td>
</tr>
<tr>
<td>Total provincial domestic investment</td>
<td>(b)</td>
<td>2.893</td>
<td>3.711</td>
</tr>
<tr>
<td>Total gov’t domestic investment</td>
<td>(c)</td>
<td>21.520</td>
<td>23.393</td>
</tr>
<tr>
<td>Total gov’t</td>
<td>(d)</td>
<td>153.128</td>
<td>181.200</td>
</tr>
<tr>
<td>Share of Incremental budget in provincial domestic investment budget</td>
<td>(a/b)</td>
<td>39.0%</td>
<td>17.0%</td>
</tr>
<tr>
<td>Share of Incremental budget in gov’t domestic investment budget</td>
<td>(a/c)</td>
<td>5.2%</td>
<td>2.7%</td>
</tr>
<tr>
<td>Share of Incremental budget in Total gov’t expenditure</td>
<td>(a/d)</td>
<td>0.7%</td>
<td>0.3%</td>
</tr>
<tr>
<td>Weight of Total provincial budget in gov’t domestic expenditure</td>
<td>(b/c)</td>
<td>13.4%</td>
<td>15.9%</td>
</tr>
<tr>
<td>Weight of Total provincial budget in Total gov’t Expenditure</td>
<td>(b/d)</td>
<td>1.9%</td>
<td>2.0%</td>
</tr>
</tbody>
</table>

Figure 4 shows the difference between the allocation-in-theory and the data presented in the MTEF. The figure shows, side by side, the comparison of the application of the formula according to the two options. In the graph on the left – option (a) – one can notice that the difference between the territorial allocation in the 2014 MTEF and the allocation-in-theory is zero (there are no light blue bars), meaning that the MTEF in 2014 used the formula only for the incremental budget, that is, choosing option (a). Incidentally, it may also be inferred that the new criteria (the formula) were used from 2014 on.

Figure 4: Difference between MTEF Allocation and allocation-in-theory. On the left side, allocation-in-theory with the formula applied to the yearly increment of resources and on the right side with the formula applied to the entire provincial domestic investment. Source Budget Laws, Author’s calculation.

The graph on the right shows the difference between the allocation to provinces in the MTEF and the allocation-in-theory, when the formula is applied to the entire envelope of resources devoted to provincial domestic investment. According to this simulation, Niassa,

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38 In the introduction, and as justification of this study, it was referred that MPD had adopted the new methodology in 2013. The evidence shows that this happened as from 2014.
Cabo Delgado, and Inhambane would have been allocated more resources than they actually were. The provinces in the South were allocated more than would have been equitable.

A final consideration regards the volume of resources involved in this exercise. For this, it is worth referring once again to Table 2. The **incremental budget** averages around 22% of the resources devoted to provinces, and it is about 3.4% of the total domestic investment envelope. Finally, it rounds to 0.5% of total expenditures. These resources are too limited – further distributed to the eleven provinces – to reduce territorial disparities in the long term. However, the same consideration would apply even if the government applied the formula to the entire envelope for provincial investment (option b). Indeed the relative weight of resources for provincial investment spending amounts to 17% of the domestic investment and 22% of total expenditure.

The responsibility for the bulk of capital expenditure is still concentrated, controlled and accounted for, at central level.

Yet the centrally controlled investment does not take place (only) in Maputo. As described in the previous section, in some sectors the complexity of the projects and the management of the contracts – combined with limited capacity at provincial level – impose central control (but the investment takes place in provincial territories); this is the case of the health sector. In the case of education, the envelope of resources is first negotiated at central level and then the responsibility for execution and its accounting is devolved to the provincial governments. Both cases distort the real figures, but they may also interfere with the rationale of a formula as it is proposed.

**The Budget Law**

Table 3 shows the same envelopes as presented in Table 2, namely the value of the **incremental budget**, the overall provincial domestic investment envelope, the overall government domestic investment resources and the total government expenditure. The data cover the period 2010-14. As in the previous table, this also presents the relative weight of the **incremental budget**, with respect to all the other envelopes. Finally, in the last two rows, it shows the relative weight of the provincial investment budget in the total State domestic investment and in total State Expenditure.

While the share of the incremental budget is relevant, if compared with the total investment envelope for provinces (it averages 25% in the period), this becomes less relevant, if it is compared with the total domestic capital expenditure.

**Table 3: Provincial allocation as per the Budget Law; source Budget Laws, Author’s calculation.**

<table>
<thead>
<tr>
<th>MZN thousands</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incremental budget</td>
<td>(a)</td>
<td>792,2</td>
<td>-840,2</td>
<td>1,316,5</td>
<td>1,229,0</td>
</tr>
<tr>
<td>Total provincial domestic investment</td>
<td>(b)</td>
<td>2,604,1</td>
<td>1,763,9</td>
<td>3,080,4</td>
<td>4,309,4</td>
</tr>
<tr>
<td>Total gov’t domestic investment</td>
<td>(c)</td>
<td>20,790,5</td>
<td>20,581,7</td>
<td>24,261,0</td>
<td>22,997,4</td>
</tr>
</tbody>
</table>

In principle, it could also interfere with the rationale of the formula as it is proposed. This, of course, depends on the fairness of the criteria used for the territorial distribution of the above-mentioned investments throughout the country.

The data presented are taken from the budget laws approved by parliament.
In addition, a significant discrepancy emerges between the projections of resources available in the MTEF and the resources inscribed in the budget. Other studies (PEFA 2015, IMF 2015) point to the same weakness. This discrepancy will be evident also between the budget approved, the adjusted budget, and its final execution.

Figure 5: Difference between Budget Allocation and allocation-in-theory. On the left side, allocation-in-theory with the formula applied to the yearly increment of resources and on the right side with the formula applied to the entire provincial domestic investment. Source: Budget Laws, Author's calculation. This shows, side by side, the comparison of the application of the formula according to the two options. It is clear that the allocations in the Budget Law differ largely from any of the criteria set by the formula. No clear pattern appears, and for what is relevant for this analysis, there is no evidence of any change in 2013 and 2014.

If the allocation had been done by applying the formula to the entire provincial investment resources, the difference would be clearer and more systematic. Niassa and Cabo Delgado, but also Zambézia and Manica, take consistently less than what would be equitable; Maputo City and Maputo Province have received more than what would be equitable.

Figure 5: Difference between Budget Allocation and allocation-in-theory. On the left side, allocation-in-theory with the formula applied to the yearly increment of resources and on the right side with the formula applied to the entire provincial domestic investment. Source: Budget Laws, Author's calculation.
The Adjusted Budget Law

Table 4 shows how the data presented in Table 3 are adjusted at the end of the year. The first thing that can be noticed is that in the last three years the resources in the adjusted budget (orçamento actualizado) are more than initially envisaged in the Law approved by parliament. This phenomenon applies to the entire budget, so shares are hardly affected. All consideration done in the previous paragraph about the scarcity of the resources allocated according to equitable criteria still apply.

Table 4: provincial allocation as per the Adjusted Budget Law; source Budget Laws, Author’s calculation.

<table>
<thead>
<tr>
<th>MZN thousands</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incremental budget (a)</td>
<td>574,5</td>
<td>-905,5</td>
<td>1,292,3</td>
<td>2,076,9</td>
<td>598,9</td>
</tr>
<tr>
<td>Total provincial domestic investment (b)</td>
<td>3,317,6</td>
<td>2,412,1</td>
<td>3,704,4</td>
<td>5,781,3</td>
<td>6,380,2</td>
</tr>
<tr>
<td>Total gov’t domestic investment (c)</td>
<td>21,219,3</td>
<td>22,254,3</td>
<td>22,263,8</td>
<td>35,626,9</td>
<td>46,260,5</td>
</tr>
<tr>
<td>Total gov’t Expenditure (d)</td>
<td>107,085,4</td>
<td>127,935,3</td>
<td>145,245,3</td>
<td>182,193,6</td>
<td>207,212,8</td>
</tr>
<tr>
<td>Share of Incremental budget in provincial capital budget (a/b)</td>
<td>17,3%</td>
<td>-37,5%</td>
<td>34,9%</td>
<td>35,9%</td>
<td>9,4%</td>
</tr>
<tr>
<td>Share of Incremental budget in gov’t capital budget (a/c)</td>
<td>2,7%</td>
<td>-4,1%</td>
<td>5,0%</td>
<td>5,8%</td>
<td>1,3%</td>
</tr>
<tr>
<td>Share of Incremental budget in Total gov’t expenditure (a/d)</td>
<td>0,5%</td>
<td>-0,7%</td>
<td>0,9%</td>
<td>1,1%</td>
<td>0,3%</td>
</tr>
<tr>
<td>Weight of Total provincial budget in gov’t capital expenditure (b/c)</td>
<td>15,6%</td>
<td>10,8%</td>
<td>14,4%</td>
<td>16,2%</td>
<td>13,8%</td>
</tr>
<tr>
<td>Weight of Total provincial budget in gov’t total expenditure (b/d)</td>
<td>3,1%</td>
<td>1,9%</td>
<td>2,6%</td>
<td>3,2%</td>
<td>3,1%</td>
</tr>
</tbody>
</table>

Figure 6: Difference between Adjusted Budget Allocation and allocation-in-theory. On the left side, allocation-in-theory with the formula applied to the yearly increment of resources and on the right side with the formula applied to the entire provincial domestic investment. Source Budget Laws, Authors’ calculation.
Figure 6 shows the situation of budget allocation at the end of the year. Comparing the left hand side of the graphs in Figure 5 and Figure 6, one can notice that every year the situation changed during the year. For example, in 2014, Maputo Province had an allocation below what would had been equitable but at the end of the year, the allocation was above; the same, at a greater magnitude, applies to Gaza; at the opposite end of the scale are Nampula and Zambézia.

**Budget Execution.**

**Error! Reference source not found.** Table 5 shows the volumes executed at the end of each year. The adjustments along the year are done to ensure high execution rates. That implies that the rates of execution of the domestic component of expenditure tend to be very high. Domestic investment, since it is the most flexible expenditure, follows this rule. The figures showed in this last piece of analysis are not much different from those presented in the previous paragraph. Nevertheless, for the sake of completeness they are presented. All considerations made previously about the scarcity of the resources allocated according to equitable criteria are still valid.

<table>
<thead>
<tr>
<th>MZN thousands</th>
<th>2010</th>
<th>2011</th>
<th>2012</th>
<th>2013</th>
<th>2014</th>
</tr>
</thead>
<tbody>
<tr>
<td>Incremental budget</td>
<td>(a)</td>
<td>567,9</td>
<td>994,3</td>
<td>1.322,2</td>
<td>2.056,6</td>
</tr>
<tr>
<td>Total provincial domestic investment</td>
<td>(b)</td>
<td>3.306,8</td>
<td>2.312,5</td>
<td>3.634,7</td>
<td>5.691,3</td>
</tr>
<tr>
<td>Total gov’t domestic investment</td>
<td>(c)</td>
<td>20.032,3</td>
<td>20.411,1</td>
<td>24.927,0</td>
<td>34.012,7</td>
</tr>
<tr>
<td>Total gov’t Expenditure</td>
<td>(d)</td>
<td>107.085,4</td>
<td>127.935,3</td>
<td>145.245,3</td>
<td>182.193,6</td>
</tr>
<tr>
<td>Share of Incremental budget in provincial capital budget</td>
<td>(a/b)</td>
<td>17,2%</td>
<td>-43,0%</td>
<td>36,4%</td>
<td>36,1%</td>
</tr>
<tr>
<td>Share of Incremental budget in gov’t capital budget</td>
<td>(a/c)</td>
<td>2,8%</td>
<td>-4,9%</td>
<td>5,3%</td>
<td>6,0%</td>
</tr>
<tr>
<td>Share of Incremental budget in Total gov’t expenditure</td>
<td>(a/d)</td>
<td>0,5%</td>
<td>-0,8%</td>
<td>0,9%</td>
<td>1,1%</td>
</tr>
<tr>
<td>Weight of Total provincial budget in gov’t capital budget</td>
<td>(b/c)</td>
<td>16,5%</td>
<td>11,3%</td>
<td>14,6%</td>
<td>16,7%</td>
</tr>
</tbody>
</table>
Figure 7: Difference between *Executed Budget Allocation* and *allocation-in-theory*. On the left side, allocation-in-theory with the formula applied to the yearly increment of resources and on the right side with the formula applied to the entire provincial domestic investment. Source: Government Ledger, Author’s calculation.

### 6. CONCLUSIONS

From the analysis of the legal framework that regulates the functions of the different levels of the government and the way financial resources are budgeted, it emerges that there is no provision in the law that links – or conditions – territorial allocation to the level of service that sub-national governments deliver.

The formula for equitable allocation was used *only* at the beginning of the drafting of the MTEF 2014-2016. It is applied *only* to the increment of domestic investment resources devoted to provinces. The result is that in year n+1 each province gets what is stated in the budget law of year n, plus a share of the increment of resources available; this share is distributed using the formula for equitable territorial allocation. The data show that the resources involved in such an exercise are too scarce to expect rapid convergence to equitable allocation to territories.

The allocations to provinces in the Budget have large discrepancies, if compared with the *allocation-in-theory*. During the year, the allocations can change; reallocations do not appear to be done according to the formula. Indeed the formula is used only at the initial stage, while during the drafting of the budget the real costing exercise – or the real requests from budget vote holders – are factored in and financed. Finally, the resources for exceptional expenditure are also factored in, budgeted and allocated to the competent institutions. The result is that the allocation diverges from what was initially envisaged at the beginning of the process. This is not wrong *per se*, as it is perfectly functional, but it undermines the
possibility of converging to equitable allocation to territories thanks to the use of the formula.\textsuperscript{41}

\textbf{What could improve}

- The budget is the result of a spread out, distributed process whereby every budget vote holder is responsible for its tiny bit of the budget, which is later summed up with all other pieces. Everything in principle is hold together by the PQG, but the MEP’s capacity to ensure coherence may already be stretched beyond its limits. The instructions that 64% of the budget must be spent on the Economic and Social sectors are too vague and can accommodate expenditure that might not be strategic or opportune.

- The sector envelopes are known only ex-post, at the end of the budgeting. It seems that the government is not harnessing the opportunity to influence (or condition) budget allocation at the beginning and drive it actively.

- It is argued that the problem is the limited amount of resources, and that therefore there is no good mechanism for allocating resources. In other words, the limited amount available imposes choices that are always far from perfect. But if we reverse this perspective, then it is exactly because there are limited resources, that a transparent mechanism and procedure are needed that can ensure minimum standards and best value for money, for all recurrent expenditure that can be technically mechanised. Once this part of the budget is settled, the government can think strategically about the use of resources for Investment.

- The double subordination of provincial directors to the governor and to the ministry (and of the director of district services to the administrator and to the provincial director) was repeatedly mentioned as a disruptive factor. There are limited mechanisms to control and hold sublevel government accountable. The following metaphor was repeatedly mentioned by many of the stakeholders interviewed: the Governor (read also Administrator), is the owner of its territory or a father that has to satisfy the needs of many crying children. This mind-set and this form of paternalism, together with the argument in the previous point, might lead to focusing only on short-term management with limited strategic long-term planning perspective.

- The responsibilities of the Governor with respect to the service provision might be better defined and translated into more specific instructions for the provincial government.

- The multidimensional poverty index, used at the beginning of the procedure in an aggregated way, can be disaggregated per component when drafting the budget and factored into a formula for indicating the allocation to policies (read sector or programme where appropriate). This would result in a tool for informing government allocation policy at all levels, and increase the consistency of a fair and equitable decision-making process along the budget cycle. It would also increase the possibility of linking budget allocations (inputs) to results.

- This could help the provincial government in its planning exercise, but also help hold governors and administrators accountable against specific instructions and minimum standards to be offered to the public.

- The harmonisation between sector and territories is an unsolved problem. In order to reduce the difficulties in solving this dilemma, the allocation for Goods and

\textsuperscript{41} The allocation in the next period’s MTEF is based on the current year’s Budget.
Services to provinces (and districts), could be further disaggregated per sector and per sector specific functions. The formula used by the education sector in FASE is a good example.

- The definition of standardised services and functions with standard (functioning) costs could ease the budgeting of recurrent functions and make it equitable, transparent and more efficient. In addition, and no less important, it would help – all levels of – the government to focus on capital expenditure as a means for reducing provincial (territorial) imbalances of all sorts of infrastructure.

- The allocation for Investment could be further specified per sector and per sector specific programmes.

The Government investment programming – both at central and provincial level – could be done with a longer term perspective (three years), with envelopes devoted to sectors and to specific projects so that it can be possible to work around the limits imposed by the yearly budgetary resources. The MTEF and the part devoted to capital expenditure would need to be strengthened, focussed and rigorously scrutinised.

- In order to influence subnational budget allocation for strategic programmes (or investment) co-financing mechanisms could be established to realign and strengthen incentives. The central level might offer envelopes of resources – from its capital budget (domestic and foreign) – to be allocated as additional resources to provincial governments that can demonstrate allocations of resources to the same strategic programme. To make the process credible and effective, transparency in the decision-making mechanism would need to be guaranteed.

- The management of Human Resources deserves particular attention because it plays a fundamental role in the minimum standard service provision. Fairness in HR management would translate into budget fairness.

- The MEF should devote specific budget envelopes linked to exceptional events such as jogos escolares, and presidências abertas, to be allocated transparently to the responsible administration, as additional allocations devoted to the organisation of the event.

- The basis for calculating the District Investment Funds is outdated and poorly related to the situation – might historical trends be inappropriate?

- Allocation on the base of historical trends, which still pervades procedures at many stages, is the measure of the inertia that drags the process away from focussing on strategic planning for service delivery and expanding infrastructure.
7. **BIBLIOGRAPHY**


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UNICEF (2014A) Budget Brief, Maputo, Mozambique.


APPENDIX I

LEGAL FRAMEWORK.

Laws and regulations about the State government and sub-government organisation and respective powers.

For the purposes of the analysis, it is important to understand what the responsibilities of subnational governments are in terms of administering public resources and supplying public goods and public services. In this respect, it is worth seeing what provisions are in the law that can influence, condition and link public service delivery with budget allocations. The respective law and regulations are analysed to the extent that is useful for the objective of the study. Finally, there will be no analysis of the laws that establish and regulate municipalities since they are out of the scope of the analysis.

The Mozambican State is organised into provinces and districts. The President of the Republic appoints the provincial governors. The Ministry for State Administration appoints the district administrators. These subnational governments have different responsibilities: provincial governments have some budget responsibility and independence; Districts execute (administer) based on choices (policy and budget) defined at central and provincial levels. Nevertheless, the district administration is the ultimate body responsible for providing public services to the public: services are supplied thanks to district services.

Law no. 8/2003\(^{42}\), which regulates the Local State Bodies, in article 27 refers to the Provincial Services. The Provincial Services have to guarantee the execution of the Plans and the Programmes defined by the State Bodies of the upper echelons (central and provincial government) in all sectors and provide support to the social and economic units in sectors. The local government can propose the establishment of new specific Provincial Services, but it is the central government that takes the decision.

Decree 6/2006, of 12 April, defines the Structure of the District Governments; it gives them the responsibility of organising, planning and controlling local government activities in general and the local state administration and functions in particular.

Ministerial Diploma 116/2007, of 29 August, gives the Provincial Planning and Finance Directorate (Direcção Provincial do Plano e Finanças – DPPF), the responsibility of: (i) producing, in coordination with the local bodies, the Provincial Social and Economic Development Plan in the short, medium and long run; (ii) reporting periodically about the execution of plans and projects; (iii) drafting the provincial budget proposal.

The laws and regulations presented define, in a way, the function and responsibilities of the various levels of government; in particular, they specify who has to deliver the services that are defined at central level.

For the purpose of this analysis, it is important to highlight that:

- there is no provision in the law that links – or conditions – territorial allocation to the level of service that subnational governments have to deliver. In a sense, the unity of

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42 Lei nº 08/2003 dos Órgãos Locais do Estado – LOLE.
the country on the ground of equitable service provision is the total responsibility of the central government.
- Provincial Governors advocate and lobby for higher provincial allocations but there is no legal instrument that supports them.
- Sector Ministries lobby and advocate for higher sector allocation, but have limited control of resources once they are allocated to the sublevel government in the respective sector.

Laws and regulations about the State expenditure framework

In 2002, Law no. 9/2002 reformed the way the Mozambican government had to manage the Public Finances (through the Sistema de Administração Financeira do Estado – SISTAFE, the State Financial Management System). The Law mentions that, considering the amount of expected revenues – and the expenditure limits –, the Budget is the strategic document for pursing the financial policy of the government. The central planning body – DNO in the period 2005-2014 – is responsible for providing instructions to sectors and provincial government on how to formulate their plans and budgets.

Decree no. 23/2004, of 20 August, further regulates the way SISTAFE works. It specifies the way the sub-systems (and therefore the directorates) oversee the macro-processes for planning and budgeting. Articles 6 and 7, explain that the MTEF, (Cenário Fiscal de Médio Prazo – CFMP), the Social and Economic Plan (PES) and the Budget are the planning documents. In article 6, the regulation further explains that the Ministry that oversees the area of Planning and Finance have to produce and keep updated the manuals for drawing up the planning and budgeting documents.

The budget cycle for drawing up the year n Budget starts in February in year n-1 with the drafting of the MTEF. The Ministry and the directorate that oversees the Planning area (Ministry of Planning, Direcção Nacional de Planificação – MPD-DNO), considers the macroeconomic forecasts, estimates revenues for the following three years, provides institutions with the methodology and the principles of economic policy for the following three years as well as the estimated expenditure limits. Institutions (line ministries, provincial government and district government) draw up their plans, which are later consolidated into a single document by the end of May. The Council of Ministries approves the document.

Since 2013, in the methodology for drafting the MTEF – and in the MTEF itself –, there is a clear reference to the way the budget limits for territorial allocation are set. After the 2008 Household Budget Survey, it is possible to have a multidimensional poverty index (MPI) for each province. The resources devoted to provinces are distributed according to provincial shares that are calculated as the weighted average between the provincial population (70%) and the provincial MPI (30%) (more details in paragraph 2 – Budget structure and criteria for territorial budget allocation).

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43 SISTAFE Law, article 12.
44 Regulamento do SISTAFE.
45 This is the first reference to the need for an MTEF. The SISTAFE Law refers only to the Budget.
Similarly, the methodology specifies a criterion, therefore a formula, for calculating the shares for allocating resources to districts. The share is a weighted average of population (35%), area (20%), capacity to raise local taxes (15%) and MPI (30%).

According to the methodology for drawing up the MTEF, the criterion – and therefore the formula – applies to the component of the investment expenditure financed with domestic resources (fiscal revenues) and to the component devoted to goods and services (a share of the recurrent expenditure).

The drafting of the Budget Law for year n starts in June in year n-1. As stated in the SISTAFE Law, this time DNO takes the lead. In June, macroeconomic forecasts are further refined in the light of the IMF economic outlook and starts a procedure, similar to the one for the MFET, for drawing up the Budget for year n.

At this point, it is worth going back and referring to the Law. The SISTAFE Law (see section IV Preparation for the Proposal of the Budget) states the principles for the substantiation of the Budget. It is worth noticing that there is no mention or reference to the use of the MTEF for drawing up the budget.

It is DNO’s responsibility to provide the methodology for preparing the draft budget. Indeed DNO does provide a methodology: in the methodology, there is no mention of any criteria (nor a formula) for calculating the budget allocations or limits for institutions.

The so-called documento de fundamentação does mention that in drafting the Budget priority is given to the strategic allocation of resources as stated in the MTEF. Nevertheless, there is no mention of any criteria for territorial allocation nor explicit reference to any formula for equitable geographical distribution of resources.

For the purpose of this analysis, it is important to highlight that:

- The law gives the institutions that oversee the preparation of the MTEF and of the Budget (in the previous government MPD – DNP and MoF – DNO respectively) the responsibility to assist the other institutions in preparing their proposals.
- The methodology for drawing up the MTEF and the final document itself mentions that the allocation to provinces is done by using the formula illustrated in paragraph ;
- The methodology for drafting the Budget and the documento de fundamentação of the Law, do not mention the use of any formula for allocating resources to provinces; the only thing mentioned is that the Budget is drawn up in line with the principles and policies stated in the MTEF.

46The Budget is a set of tables that show the financing side of the budget and the expenditure side, i.e. how resources are allocated to institutions and cost centres. The documento de fundamentação explains the rationale and the decisions that lead to that allocation.
**ANNEX II**

**LIST OF INTERVIEWEES.**

Egidio Cueteia
Chefe de Departamento de Monitoria e Avaliação da eficácia do Financiamento ao Desenvolvimento na Direccção de Monitoria e Avaliação – antes Técnico no Departamento de Políticas Sectoriais na DNEAP actual DEEF

Felix Macane
Chefe do Departamento de Plano e Orçamento Central do DNPO – MEF

Paula Corda
Chefe Departamento Plano e Orçamento e Órgãos Locais do DNPO – MEF

Kopre Monapea
Técnico do Departamento Planificação e Políticas Orçamentais do DNPO – MEF

Evenilde Tamele
Técnica do Departamento Plano e Orçamento Central do DNPO – MEF

Sebastião Dimene
Chefe de Departamento de Gestão do Orçamento, DNPO – MEF

Alfredo Mutombene
Chefe de Planificação e Política Orçamental, DNPO – MEF

Chamila Aly
Directora Nacional Adjunta de Planificação e Orçamento, DNPO – MEF

Antuia Soverano
Directora Nacional de Planificação e Cooperação – MINEDH

Jeannette Vogelaar
Assistência Técnica na Direcção de Planificação e Cooperação – MINEDH

André Utui
Director Adjunto de Planificação e Cooperação – MINEDH

Alberto Sithoe
Assessor Financeiro Direcção de Administração e Finanças – MINEDH

Belmiro Cruz
Director Adjunto de Planificação e Cooperação - MISAU

Carlos Mavimbe
Directora Provincial de Economia e Finanças – DPEF – Tete

Maria Lourdes Fonseca
Chefe de Departamento de Planificação e Orçamento – DPEF – Tete

Luis Bonjisse
Consultor Unicef na Direcção de Planificação e Orçamento – DPEF – Tete

Esostemio Moses Antonio
Chefe de Departamento de Planificação – DPEFH – Tete

Henriques Carlos Alicete
Chefe de Departamento de Administração e Finanças – DPEFH – Tete

Carlito Gerente Sixentence
Pontofocal Unicef – DPEFH – Tete
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<tr>
<th>Name</th>
<th>Position</th>
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<tr>
<td>Jose Fernando Custeira</td>
<td>Chefe de Repartição de Administração e Finanças – DPGCAS – Tete</td>
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<td>Ricardo Jose Arone</td>
<td>Chefe de Departamento de Administração e Finança – DPGCAS – Tete</td>
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<tr>
<td>Domingo de Sousa Razao</td>
<td>Chefe de Departamento de Acção Social – DPGCAS – Tete</td>
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<td>Jeremias Muanatraca</td>
<td>Consultor Unicef para Protecção das Crianças – DPGCAS – Tete</td>
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<td>Altima Alves</td>
<td>Chefe de Repartição da Finanças – DPS – Tete</td>
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<td>Catarina Domingos</td>
<td>Chefe de Departamento de Administração e Finanças – DPOPHRH – Tete</td>
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<td>Evaristos Mateus</td>
<td>Chefe de Departamento de Planificação – DPOPHRH – Tete</td>
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<td>Carlos Cabo</td>
<td>Chefe de Departamento de Aguas e Saneamento – DPOPHRH – Tete</td>
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<td>Graciano Julio Francisco</td>
<td>Director Direcção Provincial de Economia e Finanças – Zambézia</td>
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<td>Antonio Manuel Francisco</td>
<td>Chefe de Repartição do Orçamento</td>
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<td>Belmiro Matos</td>
<td>Técnico de Planificação</td>
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<td>Kassim Hidayat</td>
<td>Director Provincial de Saúde – Zambézia</td>
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<td>Jaime Coluse</td>
<td>Chefe de departamento de Planificação e Cooperação – DPS – Zambézia</td>
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<td>Puala Alexandra Bernardo</td>
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<td>Joaquim Mateus</td>
<td>Chefe de departamento de Edificações – DPOPHRH – Zambézia</td>
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<td>Anastasio Celindo</td>
<td>Chefe de repartição de Planificação e Estadísticas – DPOPHRH – Zambézia</td>
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<td>Faustino Amimo</td>
<td>Director Provincial Adjunto de Educação e Desenvolvimento Humano – Zambézia</td>
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<td>Sergio Domingo</td>
<td>Chefe de Departamento de Administração e Finanças – DPEDH – Zambézia</td>
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<td>Airis Pedro Braga Soares</td>
<td>Chefe de departamento de Planificação – DPEDH – Zambézia</td>
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<tr>
<td>Ana Bela Omar</td>
<td>Chefe de Repartição de Administração e Finanças</td>
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LIST OF PARTICIPANTS AT THE VALIDATION WORKSHOP.

The Validation workshop was held during the Retiro de reflexão em matéria de Gestão de Finanças Públicas e Municipais, Mulotana Lodge, Provincia de Maputo.

The following list of participants was compiled using the attendance list provided by the MEF-DNPO. Some of the names of the participants and of the institutions they worked for were either difficult to decipher or illegible. When interpretation was uncertain or not possible, the names were either highlighted or replaced by asterisks.

Horácio Francisco Bitone  Técnico de Planificação DPEF Sofala
Pedro Elia Sousa  Técnico de Planificação
Bernardino M. Eduardo Matimbe  Técnico DNCP
Angelica Melembe  Auditor – DNCP
Jaime Ambrósio Severe  Técnico DNMA
Feliciana Patricio  Directora Planificação
Faruk M. Nguenha  Técnico MINEDH
Nenine Bernardo Vilares  Conselho Municipal Nampula
Hamade Amade  Director CM CN
Sheita Matusse  Chefe de Repartição DNPO
Nâdia Hassamo  Técnica DNPO
Yasimien Ribeiro  Técnica DNPO
Alfredo Mutombene  Chefe de Planificação e Política Orçamental, DNPO – MEF
Cristina Matusse  Directora Adjunta de Planificação e Orçamento, DNPO – MEF
Deltin Gatama  Técnico DNCP
Alberto Pule Paulo Muemba  Chefe Repartição DPEF Maputo
Mariam Umarji  MB Consulting
Claudia Langa  Chefe de Departamento / DPE-MIC
Leopoldo Jaime Lemia  Chefe de Departamento MAEFP
Dererio *****  Técnico Mon*** MAEFP
Odisse Daniel  Técnico DNPO
Afiffa L. A. Jamal  DPEF Inhambane
Fernando Federico Fernando DPEF Inhambane
Luis da Silva DPEF Cabo Delgado
Amaral Deodato M. Dias DPEF Cabo Delgado
Miranda Amade Miguel Chefe Departamento Sofala
Ernesto Usalaia Chefe Departamento Nampula
Cardoso Pedro Cuachia Técnico DPO Nampula
Benjamin Jáime Técnico DINOF
Ailario Francisco Lama Técnico
Eliseo Albemo Cajembe Assistente Técnico
Armando José Tamy Técnico DNPO
Alcimo *** Bebe Técnico DNPO
Jaeta Silva Duvane DNPO
Alberto H. Tebbeia DNPO
Vanessa Fortes DNPO
Angelica Mutombene Técnico Superior DNPO
Ana Maria há C.D. DNPO Assistência Técnica
Utília Thiziane Auxiliar DNPO
Araceli Carmen Gonçalo Técnica DNPO
Anselmo J. Zimba Assessoria DNPO
Nelia Massone Médica MISAU
Olimipia de C.H. Macuiane Técnica DPEF Manica
Eltone Joaquime Mutole Técnico DPEF Manica
Allamo Manjiate Dinmas DNMA
Dita Momtambo Técnico MIC
Silvia Maconde Técnica CMCM
Etlilio Girrugo Técnico DINAT
Alberto Cossa Técnico ****
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<td>Carlos Am. Mabunde</td>
<td>MEF-DNPO</td>
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<td>Robo Cumbone</td>
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<td>Luci Manica</td>
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<td>Deolindo A. *****</td>
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<td>Acobar P. Batista</td>
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Analcoria Dalsuca Langa  Chefe de Repartição DNPO
Virgínia Guilanda  Chefe de Repartição MISAU
Albino Vietronio  Técnico EMCN Nampula