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Republic of Mozambique: Letter of Intent, Memorandum of Economic and Financial Policies, and Technical Memorandum of Understanding

March 28, 2007

The following item is a Letter of Intent of the government of Republic of Mozambique, which describes the policies that Republic of Mozambique intends to implement in the context of its request for a policy support instrument from the IMF. The document, which is the property of Republic of Mozambique, is being made available on the IMF website by agreement with the member as a service to users of the [IMF](#) website.

Maputo, Mozambique
March 28, 2007

Mr. Rodrigo de Rato
Managing Director
International Monetary Fund
Washington, D.C. 20431
U.S.A.

Dear Mr. de Rato:

1. The Government of Mozambique requests a three-year arrangement under the Policy Support Instrument (PSI) before the expiration on July 5, 2007 of the current arrangement under the Poverty Reduction and Growth Facility (PRGF). This request is made at this stage to avoid a vacuum between the two arrangements. The main elements of the new program are consistent with our *Plano de Acção para a Redução da Pobreza Absoluta II* (or PARPA II) and are described in the attached memorandum of economic and financial policies (MEFP) covering the period 2007–2010. The MEFP also sets forth the objectives and policies that the Government intends to pursue during 2007. The attached technical memorandum of understanding (TMU) defines the terms and conditions of the program.
2. The Government of Mozambique continues to make progress in implementing its PRGF-supported program despite the severe floods that affected parts of the country during the first months of 2007. All end-December quantitative performance criteria (PCs) were met, except for the PC on base money, due to the temporary surge in currency in circulation at the end of 2006 which was related to the currency reform. The structural PC and benchmarks through end-March 2007 were also achieved, except for the benchmark related to the treasury single account (CUT) which has been delayed to end-September 2007. In light of the progress achieved in the implementation of our program, the Government of Mozambique requests a waiver for the non-observance of the quantitative PC on base money.
3. The resources released as part of the MDRI have been incorporated in the execution of the 2007 budget and included in the medium-term fiscal framework (CFMP) to be spent on poverty-reducing priority expenditures identified in the PARPA II.
4. Looking ahead, the policies set out in the MEFP continue to aim to consolidate macroeconomic stability and sustain strong broad-based growth through a second wave of reforms in order to achieve the Millennium Development Goals (MDGs). Our PSI supported program proposes assessment criteria for the performance target dates of end-June and end-

December 2007 for the first and second reviews as set out in Tables 1 and 3 of the MEFP, which are expected to be completed by end-December 2007 and end-June 2008, respectively.

5. The Government of Mozambique intends to accept its obligations under Article VIII, Sections 2, 3, and 4, of the Fund's Articles of Agreement following the approval of the new foreign exchange law which will be submitted to the Assembly by end-April 2007. The government remains committed to a flexible exchange rate regime.
6. The Government of Mozambique will provide the Fund with such information as the Fund may request in connection with the progress made in implementing the economic and financial policies and achieving the objectives of the program.
7. The Government of Mozambique believes that the policies set forth in the MEFP are adequate to achieve the objectives of our PSI program; it will take additional measures to that end if deemed necessary. During the implementation of the arrangement, the Government of Mozambique will consult with the Managing Director on the adoption of these measures and in advance of revisions to the policies contained in the PSI, at the initiative of the Government or whenever the Managing Director requests such a consultation.

Sincerely yours,

/ s /
Manuel Chang
Minister of Finance

/ s /
Ernesto Gouveia Gove
Governor
Bank of Mozambique

Attachments: Memorandum of Economic and Financial Policies
Technical Memorandum of Understanding

Attachment I

Memorandum of Economic and Financial Policies of the Government of Mozambique for the Sixth Review Under the PRGF Arrangement and for the PSI Supported-Program (June 2007–June 2010)

March 28, 2007

1. The Government of Mozambique is committed to continuing to consolidate macroeconomic stability and to achieve sustained economic growth and poverty reduction through the pursuit of prudent macroeconomic policies and a second wave of structural reforms. The strategy to achieve these goals is set out in the *Plano de Acção Para a Redução da Pobreza Absoluta II* (PARPA II) for which a Joint Staff Advisory Note was approved by the Boards of the International Monetary Fund (IMF) and World Bank (WB) in December 2006. The current Government's economic program is supported by the IMF with a three-year arrangement under the Poverty Reduction and Growth Facility (PRGF), which expires on July 5, 2007. The new program for 2007–2010 would be supported by the IMF with a three-year arrangement under the Policy Support Instrument (PSI). This Memorandum of Economic and Financial Policies (MEFP) reviews the performance under the PRGF-supported program (October 2006–March 2007) and describes the policies and targets for the remainder of 2007.

I. RECENT PERFORMANCE UNDER THE PRGF-SUPPORTED PROGRAM

2. In 2006, economic performance has been strong. Economic growth accelerated to 8.5 percent, led by a rebound in agricultural production after the localized drought of 2005 ended, as well as continued strength in the construction sector (related to megaproject activity and a pick-up in donor-financed project execution). Prudent fiscal and monetary policies helped lower the 12-month headline inflation rate down from its peak in April of 17.7 percent to 9.4 percent in December 2006, and further to 5.4 percent in February 2007. Strong exports, along with sustained foreign aid inflows, helped keep net international reserves at a comfortable level (over 4 months of imports).

3. The foreign exchange market has remained stable following the introduction of a temporary exchange rate band in the interbank foreign exchange market (MCI) in November 2005. The spread between the MCI rate and the rates charged by banks fell below pre-band levels thanks to the measures taken by the Bank of Mozambique (BM) to deepen the MCI through the introduction of a code of conduct among banks and facilitating firm quotation.

4. The 2006 currency reform went smoothly. The BM introduced a new family of Meticaís on July 1, 2006—1,000 Meticaís equals to one of the new family of Metical (MT). By end of February 2007, 94 percent of currency in circulation corresponded to the new family of Metical. Because of the volatility in currency demand around the deadline to exchange the old currency for the new, the PC on base money was missed at end-2006, though it declined below the end-year target in January 2007.

5. The fiscal position at end-2006 was better than programmed. Revenue collection in 2006 is slightly above target led by continued buoyancy in corporate and personal tax collection (including collection of tax arrears) and non-tax revenue. Current spending, including the wage bill and locally financed investment was slightly lower than programmed, resulting in a greater than expected consolidation of the domestic primary deficit. Higher than anticipated program aid in 2006 also meant that net credit to the Government from the banking system declined more than programmed (performance criteria). The composition of spending improved, supported by donor-financed project, with the share of priority expenditures in line with the 65 percent PARPA target.

6. Progress has been made in reforming revenue administration and in widening the tax base. The new Central Revenue Authority (ATM) is now fully operational with all the senior and lower management appointed. The current reforms focus on establishing the ATM as a sustainable, semi-autonomous agency with the aim of improving operational performance and tax compliance. Three new collegial bodies were created as part of the new ATM: (i) the High Tax Council; (ii) the "Directive" Council; and (iii) the Fiscal Council, a consultative council. Progress has been made in incorporating the former customs and tax directorates into the ATM and to create the General Directorate for Common Services, an Office of Planning, Research and International Cooperation, and Office of Internal Control. Legal, human resource and systems integration work have also been prepared. A draft IT-strategy is ready for internal discussion and approval. In addition, the following measures were implemented in 2006: (i) tax arrears continued to be identified and collected; (ii) the number of taxpayers was increased by about 100,000 to 391,719; and (iii) about 500 tax audits were conducted. An ATM seminar held on February 2007 concluded that there was a need to: (i) immediately prepare studies and formulate recommendations in response to the revenue losses related to the Southern African Development Community (SADC) tariff reductions in 2008; (ii) to continue the process of simplification, decentralization, and broadening of the tax base; (iii) to prepare a study (to be finalized by end 2007), operationalizing an "electronic one-stop-window" through an integrated IT system in which both customs and tax IT systems are incorporated; and (iv) to elaborate a plan to create a technical tax training institute by end-December 2007.

7. In the area of tax policy, the Council of Ministers approved and submitted to the Assembly three laws on specific taxes and fiscal incentives in the mineral resource and the petroleum sectors in December 2006 (structural performance criteria). A new fiscal code for succession and donations, and a draft municipal finance and asset law was also submitted to the Assembly. The latter aligns the finance and asset management of the municipalities with the new financial and fiscal systems implemented over the last six years.

8. Public Financial Management (PFM) reforms have made good progress. The medium-term fiscal framework (CFMP) is closely aligned with the objectives of PARPA II, and was, for the first time, approved by the Council of Ministers in May 2006. The 2006 budget also included an investment budget for each district supported by strengthened planning capacity in some districts, though the reporting of utilization of

funds needs to be further strengthened. Specific measures in the medium-term PFM Action Plan and Budget (APB) for 2006-2009 under implementation include:

- a. After an initial 6 ministries, all budgetary operations for goods and services of Financial Management Departments (DAFs) of 22 additional ministries and organs, at the central and provincial levels, are since January 2007 executed through the e-SISTAFE (structural benchmark). This enables an effective direct budget execution according to the sequence of commitment, verification, and payment. However, the level of direct budget execution has increased slowly to about five percent of payments for goods and services made through e-SISTAFE, while 95 percent of payments continue to be made on the basis of advance payments.
- b. The Inhassoro functionality allowing for the closure of the 2006 budget and the production of the financial accounts of the State within e-SISTAFE is operational since end-2006.
- c. The census of the civil service is ongoing and is expected to be completed as scheduled by end-April 2007 (structural benchmark).
- d. The e-SISTAFE reporting functionality has been developed and is being implemented.
- e. Most G-18 donor-financed projects have been integrated into the 2007 budget ceilings. However, the opening of a limited number of separate foreign currency accounts in the Single Treasury account (CUT)—a benchmark for end-March 2007—is delayed until end-September 2007 (structural benchmark). In addition, the guidelines to facilitate the inclusion of donor-financed projects on the CUT have not yet been issued and are now envisaged by mid-May 2007.

9. Monetary policy has remained prudent. Interest rates on government securities continued to be determined by market forces following the removal of interest rate caps in March 2006. Money velocity continued to decrease pointing to a deepening of the financial sector. Credit growth to the economy has remained strong especially due to the financing of petroleum imports and consumer loans. Net credit to the government (NCG) was lower than programmed (performance criteria) while net international reserves exceeded the floor by US\$166 million (performance criteria). The indicative target on the balance of the Government's saving account set up abroad with the proceeds from the coal mine exploration contract was lower than the floor programmed at end-December 2006 and end-March 2007. The funds were used for priority investment projects. In December 2006, the BM widened the band in the MCI from 0.25 percent to 1 percent. In addition, in order to strengthen the balance sheet of the BM, securities in an amount of MT 1.5 billion were issued to BM in June 2006 as envisaged in the program.

10. Prudential ratios of the banking system have remained sound. The ratio of non-performing loans to total loans has remained below 5 percent while the requirement to provision 50 percent of their foreign currency-denominated loans to nonexporters since July 2005 has led to a deceleration in foreign currency credit growth. The commercial banks are highly profitable but their level of capital adequacy is being closely monitored in light of the overall strong growth in credit to the economy.

11. To strengthen Bank supervision, a proposal on the new organizational structure of the banking supervision department consistent with the Integral Strengthening Plan for Banking Supervision was approved by end-December 2006. In addition the new regulation on the assessment, classification and provisioning of credit and the regulation on integral risk management for credit institutions and finance companies were approved by end-March 2007. The Chart of Accounts of the commercial banking system was made consistent with IFRS with some delay in March 2007.

12. The remaining measures needed to address weaknesses identified in the context of the Fund's safeguard assessment mission conducted in June 2004, have now been implemented. In the area of accounting, the BM has issued its 2006 financial statements in compliance with IFRS in parallel to the financial statement prepared under the current accounting standard. The reconciliation of monetary data with audited financial statements and its review by the internal audit department was completed by end-December 2006.

13. Progress was also made to increase access to finance, in particular for rural financing. The BM has reduced the legal reserves requirement from 11.51 to 10.15 percent, a level that is in line with the practice in the region. This should help bring down the spread between deposit and lending rates along with other measures to reduce overhead costs and improve competition among banks including by encouraging greater transparency of fees and charges. Progress was also made improving the institutional lending environment. In order to accelerate dispute settlement and debt recovery of unsecured lending, the government has implemented a new Commercial Code, and established commercial sections of the judicial tribunals in the cities of Maputo, Beira, and Nampula. It has also set a strategy to promote rural financing through fiscal incentives and measures to reduce operating costs, including the opening of five BM agencies (with due regard to its cost) to facilitate the payment system and transfer of cash to commercial bank branches.

14. Progress on structural reforms also accelerated, particularly in the areas of the public sector, cost of doing business, and governance reforms. The Council of Ministers in October 2006 approved the second phase of the public sector reform strategic action plan (2006–11). The Ministry of Industry and Trade has finalized a draft strategy for reducing the cost of doing business climate in March 2007 as envisaged under the program. In the area of trade reforms, in January 2007, the maximum import tariff rate for consumer goods applicable to all trading partners was lowered from 25 to 20 percent. With regard to the Justice sector, the Supreme Court concluded 66 percent more cases in 2006 than in the previous year while activities in provincial courts increased by

48 percent thus reducing the backlog of cases by 34,019 cases to 68,433 outstanding cases. To accelerate the enactment of approved laws, the production of the Gazette of the Republic has been assigned to the Ministry of Justice. However, the Penal Procedure Code was not approved by Council of Ministers in December 2006 as envisaged under the program.

15. Some progress has been made in collecting the necessary information to monitor adequately the megaprojects and public enterprises. While a unit to monitor the megaprojects has not been created as envisaged under the program, the government has decided to assign that responsibility to the research department within the Ministry of Finance, whose functions include gathering information on megaprojects and public enterprises.

II. OBJECTIVES AND POLICIES FOR THE THREE-YEAR PSI

16. Our overriding objective is to sustain a high rate of growth and to further reduce poverty in line with the PARPA II. Consolidating macroeconomic stability in the context of scaled-up foreign aid is a necessary condition to meet this challenge by maintaining a single digit inflation rate and preserving a comfortable level of foreign reserves. This is to be achieved by implementing sound fiscal and monetary policies in the context of a flexible exchange rate regime, as well as prudent public debt management and public finance reforms. In this regard, the CFMP will be revised taking into account the latest external financing envelope while continuing to target an average revenue increase of 0.5 percent of GDP a year and no recourse to financing from the domestic financial system. The gradual strengthening of sector strategies and costing of programs in PARPA II will help inform the revision of the CFMP, though addressing the variable quality of work on the costing of policies and programs at the sector and district level remains a priority to improve the overall planning and budgeting framework.

17. At the same time, we need to persevere with the timely implementation of our second wave of reforms to continue to improve public service delivery and create an enabling environment for private sector activity. Particular emphasis will be on implementing the second phase of the public reform program (2006–10) which consist of three pillars; (i) human resource management including payroll systems; (ii) performance evaluation and wage policy; and (iii) decentralization policy. Improving governance will remain a priority through the firm implementation of our anti-corruption strategy at all levels of the public service. We are also determined to make Mozambique's business environment one of the most competitive in Africa so as to achieve broad based growth, and to benefit from Foreign Direct Investment (FDI) and technology spillovers. We will also ensure that our natural resources are managed transparently following the principles of the Extractive Industries Transparency Initiative (EITI) so that future generations reap the maximum benefit of Mozambique's rich endowment. The fight against pandemics, and the improvement of human and physical capital, particularly infrastructure would continue with the help of the international community. The Government intends to continue to monitor its program with the existing multi-disciplinary committee, especially through reinforced coordination between the BM and the Ministry of Finance (MF).

III. THE POLICY AGENDA FOR 2007

18. Economic prospects for 2007 remain favorable with continued strong economic growth and deceleration in inflation, albeit with risks related to the recent floods and cyclone. Central to achieving these objectives will be a strengthening of fiscal policy backed by a revenue increase of 0.5 percent of GDP and a prudent monetary policy. To maintain competitiveness and a comfortable level of international reserves, the BM will bestow greater exchange rate flexibility in the foreign exchange market. The structural reform agenda is in line with the PARPA II strategic matrix.

19. The 2007 budget envisages a scaling-up of aid and an associated increase in priority spending focused towards achieving the PARPA II targets including sufficient counterpart funds to ensure a smooth execution of donor-financed projects. There will be no recourse to domestic financing. Despite a nearly 0.2 percent of GDP revenue loss related to tariff reform, total domestic revenue is envisaged to rise by 0.5 percent of GDP by broadening the tax base through a continued increase of the number of taxpayers (by about 100,000), strengthening border control and limiting unwarranted customs exemptions (revenues amounting to about 0.2 percent of GDP), collection of new tax arrears amounting to about 0.3 percent of GDP, and quarterly updating of the specific fuel tax rate. In line with our 2007 budget, the expenditure side will reflect a hiring of about 10,000 teachers and 3,000 health workers while counterpart funds have been increased to cover scaled-up project financing. The share of spending on priority sectors (above 65 percent), particularly education, health, and infrastructure, has been agreed with the donors and will be closely monitored.

20. Following the immediate emergency response by the Disaster Management National Institute (INGC) to the victims of the floods along the Zambezi river and Cyclone Favio, the government developed a reconstruction plan estimated at US\$71 million and the UN Office for the Coordination of Humanitarian Affairs launched an emergency appeal for a further US\$29 million to meet the short-to-medium term needs of those hit by the flooding and by the Cyclone. The government, with the financial assistance of the donor community, will assist the affected population and enterprises with their basic needs and reconstruction of damaged infrastructure. However, in the event that donor-financing is inadequate to cover the reconstruction plan, the government may consider using the program adjustor to accommodate emergency fiscal outlays (up to a maximum of about US\$20 million).

21. The government will continue to improve the efficiency of the tax system by sequentially implementing its medium-term tax policy reform program benefiting from Fund technical assistance. Progress on tax reform will be closely monitored within the MF. By end-June 2007, the government will study options on how to compensate for the further reduction in external tariffs that take place in 2008. In this regard, tax policy measures will be defined to equalize the treatment of interest income on different assets, streamline and simplify the tax system for small and medium-sized enterprises, update excise tax rates, rationalize income tax benefits, and reduce VAT exemptions. An external quantitative audit which sets the amount of arrears on VAT reform due to

contractors of large infrastructure projects, particularly in the road and water sectors, will be conducted with financial support from donors by end-September 2007, to be approved and decided upon by the Government by end-December 2007. On the basis of this audit a payment schedule will be defined to clear the arrears. Going forward, the government will ensure that VAT charged on supplies of projects be included in the final price of a contract.

22. The next phase of the revenue administration reforms (2007–10), to be supported by a multi-donor common fund, will focus on implementing the ATM strategic plan, and improving operational performance to help achieve the medium-term revenue targets. The ATM will be established through three stages: a transition period to end-2007, a gradual integration of the tax and customs agencies that will take place during 2008, and further strengthening and consolidation in 2009 and 2010. Revenues administration measures envisaged in 2007 include: (i) initiating procedures to recover tax arrears generated during 2006; (ii) providing a better service to taxpayers by reducing the average time to resolve VAT refund claims; (iii) implementing an audit plan for 2007 encompassing at least 675 audits at the DGI aimed at broadening audit coverage for domestic taxes; (iv) facilitating trade through the reduction of the average time to release imported goods at the border; and (v) implementing the IT Plan (PDTI). The ATM will initially use a basic information scoreboard and a basic set of operational performance indicators to monitor progress in reforms. In the course of 2008, ATM will put in place a modern management information system to measure performance of the tax administration's core functions at both strategic and operational level to evaluate the tax administration's efficiency and effectiveness, to guide management decisions, and to measure progress in the implementation of ATM's strategy.

23. A number of specific measures in the medium-term PFM APB will be implemented in 2007.

- Following the completion of the census of the civil service, an integrated and e-SISTAFE compatible payroll database will be developed—register of the state employees (CAF)—enabling the MF to carry out salary payments via e-SISTAFE by end-June 2007 (structural benchmark). The pensioners census will be executed in a slightly different timeframe and the pension functionality in e-SISTAFE will be completed by end-September 2007. In addition, by end-September 2007, the government will decide on the institutional responsibilities for keeping the payroll and pension database updated.
- Even with the introduction of the CAF, the calculation of salaries and pensions (value of payment, value of tax to be retained, and classifications) will continue to be made outside e-SISTAFE, and global salary payments to civil servants who do not have a banking account will continue to be paid into the line ministries salary accounts. As such, a business case (BC) will be developed by end-September 2007 for a second phase allowing for the automatic calculation of payroll and pension payments, as well as execution of salaries and pension payments directly to recipients' bank accounts, through e-SISTAFE on a transactional basis.

- UTRAFE will elaborate a BC presenting the various options with relation to e-SISTAFE rollout to the districts. Conditioned on the approval of the BC, it is foreseen that by the end of October 2007 a total of 27 districts will be operating e-SISTAFE. By end September 2007, UTRAFE will present a plan for further district and autarquia rollout in 2008.
- The e-SISTAFE will be rolled out to all the remaining ministries at the central and provincial levels listed in the TMU by end-December 2007 (structural benchmark).
- A business case will be finalized by end-September 2007, defining a list of State organs at the central level for which the e-SISTAFE will be progressively rolled out.
- The Phase II of the budget formulation module will be tested and ready for use and training by end-June 2007, to fit in with the 2008 budget calendar and pilot cases of program budgeting. The latter uses a conceptual model agreed between the MF and the Ministry of Plan and Development.
- In close coordination with the ATM, a fully articulated BC will be prepared by end-June 2007 to implement a revenue collection network (RCN) with which all government revenues collection will be automated and classified before being transferred to the CUT. UTRAFE is aiming at testing a functional prototype by April 2008.
- To facilitate the inclusion of all donor-financed projects within the CUT, UTRAFE will put in production a pilot test of the multi-currency CUT by end-September 2007 aiming at full production by January 2008.
- For the implementation of the asset management system and procurement interface to e-SISTAFE, the development of requirement specifications will be finalized and a tender launched by end-June 2007.
- Through the development of a reliable and updated supplier data base and the implementation of findings by the Government task force, the level of effective direct budget execution (according to the sequence of commitment, verification, and payment) for goods and services will be increased to 30 percent by end-September 2007, 50 percent by end-December 2007 (structural assessment criterion), and 75 percent by end-March 2008, and 90 percent by end-June 2008.

24. On monetary policy, the BM will continue to target base money with a view to achieving its inflation target. A long-term monetary policy strategy document was approved by the executive board of the BM in October 2006 that defines an intermediate target compatible with the base money operational target, a new format for the monetary policy committee, and its communication policy. To achieve the inflation objective of 6 percent by end-2007, broad money growth will be limited to about 16 percent—or slightly higher than nominal GDP growth—to take into account the ongoing financial deepening. In addition, the monetary authority remains committed to a flexible exchange

rate regime and to that effect will continue to gradually widen the temporary exchange rate band in the foreign exchange market when conditions permit.

25. The BM will continue to improve liquidity management, and deepen financial markets as part of the Financial Sector Technical Assistance Program (FSTAP). In this context, the MF, in turn, will improve the preparation of cash-flow projections and communicate it to the BM in a timely manner with Fund technical assistance. Moreover, with Fund technical assistance, the BM will finalize a master repurchase agreement by end-May 2007. The BM and the MF will agree, through a memorandum of understanding (structural benchmark for end-September), to shift the costs of managing monetary policy to the budget.

26. In the area of public debt management, FSTAP supported reforms at the MF and BM has gained momentum and is expected to intensify after the second quarter of 2007. Following recommendations made in a debt management assessment report prepared by an FSTAP consultant, the government intends to realign its debt management institutional framework along international best practices. The MF intends to strengthen its staffing complement, launch a multi-year training program, consolidate the debt database for all public debt, start to publish debt reports regularly and design an integrated debt strategy by end-2007.

27. The BM will also continue to strengthen and modernize its supervisory functions and implement the recently approved organizational changes in view of strengthening on-site and off-site monitoring. In this regard, training to adopt a risk-based supervision approach will start in 2007, at which time the new inspection manuals will also be used. The BM is implementing a timetable to adopt IFRS in the banking system in 2007. Based on the results of the FSTAP study, to be completed by mid-2008, the application of IFRS will also be extended to the corporate sector in January 2009 for large companies. This will improve the ability of the financial system to evaluate the quality of their loan portfolios. Further, new regulation on the assessment, classification and provisioning of credits as well as a regulation on integral risk management for credit institutions and finance companies have been approved and will become effective during the first semester of 2007. The BM will issue its own 2006 financial statements in line with IFRS in 2007.

28. The Government is committed to supporting a sound expansion of the non-bank financial sector. The BM will continue to license and supervise microfinance deposit-taking institutions to facilitate enhanced access to finance by rural households and small-and-medium sized enterprises. Both the FSTAP and the IFAD supported Fundo de Apoio à Reabilitação Económica (FARE) and the Rural Finance Support Program (RFSP) will support the government's efforts to improve access to finance, especially in rural areas. The strengthening of the social security and supplementary pension system is also being undertaken as part of a new law on social protection, which has been approved by the Assembly. As part of the restructuring of the National Social Security Institute (INSS), an actuarial study will be completed before the end of 2007. In the meantime, guarantees of minimum benefits will be limited until the full study is carried out. Efforts to strengthen

the regulatory and supervisory framework of the insurance sector as well as the institutional capacity of the *Inspecção Geral de Seguros* (IGS) are under way. The Insurance Law is being reviewed to bring it in line with international best practices, revised prudential and solvency requirements for Mozambican insurers are being developed, while new IFRS-compliant Chart of Accounts for insurers would also be designed. New supplementary pension funds regulations are to be presented to the Council of Ministers for approval by September 2007.

29. Regarding the foreign exchange system, a new foreign exchange law taking into account comments from all stakeholders and the Fund, will be submitted to the Assembly by end-April 2007. Following approval of the new law, the authorities intend to accept their obligations under Article VIII sections 2, 3, and 4 of the Fund's Articles of Agreement. The recent regulation (Aviso 2/06) pertaining to the current import and export transactions remains suspended and will be replaced by the issuance of a new one.

30. In order to improve the trade regime, the government will continue in 2007 ongoing Economic Partnership Agreement (EPA) negotiations, with technical advice under the Integrated Framework. The government is also pursuing bilateral free trade arrangements as recommended in the Diagnostic Trade Integration Study (DTIS). The government is continuing its negotiations with Angola, Tanzania and Zambia in order to reach trade agreements similar to the ones concluded with Zimbabwe and Malawi in 2005.

31. The Government looks forward to completing the buyback operation for its commercial debt in September 2007 with the financial assistance of the World Bank and the Government of Norway. The Government recognizes the importance of reaching rescheduling agreements with all bilateral creditors in the context of the enhanced HIPC Initiative. It has intensified efforts to negotiate with all Paris Club and non-Paris Club creditors that have not yet delivered debt relief, and hopes that progress would be made in reaching agreements with its remaining creditors, including commercial creditors, as soon as possible. In this regard the Government of Mozambique looks forward to the continuing support of the Bretton Woods institutions.

32. The Government of Mozambique is conscious that despite its efforts to improve its investment climate during the year 2006, its ranking in the ease of doing business, as assessed in the Doing Business report 2007, has worsened to 140th place. The recent authorization to publish the bylaws of firms electronically would help to improve the ranking. However, it is not sufficient to make Mozambique's business environment the most competitive in SADC by 2015. To address this challenge and significantly improve the investment climate in Mozambique, the Ministry of Industry and Commerce has developed a draft strategic action plan for 2007–12 covering business start-up and registration, licensing, business inspections, labor costs, access to credit, cost of energy, and property registration. The World Bank has provided comments on the strategy and will provide further assistance in the development of the strategic action plan. An interministerial committee has been setup to monitor the implementation of this plan. In 2007, the two key actions envisaged will include:

(i) Reducing the cost of inspections and fines while improving compliance. The authorities intend to adopt a system of inspections that will be simplified, business friendly and harmonized across the several ministries that undertake inspections; and

(ii) Simplifying the procedures of closing businesses. Through a new insolvency law that will be submitted to the Council of Ministers by end-September 2007, the Government intends to simplify the business closing process and increase the recovery rate with the objective of helping viable businesses to overcome a short-term cash flow crisis, and insolvent businesses to be rapidly liquidated.

33. In 2008, the three key actions envisaged are:

(i) Reducing the licensing burden. To speed up the licensing process, the Ministry of Industry and Trade is in the process of setting up “One-Stop-Shops” for licenses at the provincial level. Additionally, through the Inter-Ministerial Commission mechanism, the licensing process will be streamlined, and the number of licenses required will be reduced;

(ii) Facilitating trading across borders. The Government will carry out a review of the import and export procedures, with financial assistance from the international community and will implement the recommendations of that study with the specific aim of reducing documents, signatures and the amount of time required for both importing and exporting; and

(iii) Improving the system for VAT reimbursement. The Directorate of Taxes and Audits will implement a system to improve collection, including through the prosecution of non-compliant institutions and expediently channeling these funds back to those firms that are in compliance with the VAT system.

34. In 2009, the four key actions envisaged are:

(i) Consolidate the progress in streamlining and reducing licenses for all sectors;

(ii) Consolidate the progress in facilitating trading across the borders. By end 2009, Mozambique should be as efficient at its borders as South Africa in the clearance of goods for both imports and exports. This will require reducing the number of documents filled out by at least half.;

(iii) Simplification of Tax Filing. Electronic filing of taxes should be provided and forms should be simplified to reduce the time required for tax preparation; and

(iv) Property Registration. Amendment of the relevant legislation to speed up the registration process by improving communication among different government agencies and developing an electronic database for the real estate registry. All registrable acts will be exempted from the requirement of prior execution of public deeds.

35. The Government will continue to restructure and encourage public-private partnerships, particularly in infrastructure services. Public-private partnerships and sale of

state assets (and concessions) will be undertaken transparently in line with international best practices. A decision was made by the Council of Ministers in May 2006 to develop a new restructuring plan for PETROMOC that would improve efficiency. The new restructuring plan will be completed by end-June 2007 for its adoption by the Council of Ministers by end-September 2007. For the purchase of shares in Cahora Bassa, the Government remains committed to a non-recourse financing of the outstanding payment of US\$700 million to Portugal and ensuring transparency of the financing package and operations. While strengthening the investment planning capacity of the Ministry of Energy, the Government, with the assistance of its financial advisors, is now in the process of selecting strategic investors for: (i) Temane gas-fired generation project (about 750MW); (ii) Moatize coal power project (about 1,500MW); and (iii) Mphanda Nkuwa hydropower plant (about 1,300MW). To support these new generation projects, there would be a need to build a major transmission line to distribute the power to the Mozambican market and for export. For all these projects, the Government will ensure, with the help of the World Bank and other partners, that: (i) financing is non-recourse and does not increase central government liabilities; and (ii) maximizes private sector investments through the use of public-private partnerships with any equity stake by the state-owned electricity company (Electricidade de Moçambique, EDM) raised through concessional borrowing or without government guarantees. The Government with the help of the World Bank and other partners will also continue to put in place measures to assist EDM to improve its performance, including through a performance contract and the operationalization of the regulator (CNELEC) by end-June 2007. In general, the government will, across all sectors seek to buttress regulatory bodies, including monitoring of concessions.

36. Aeroportos de Moçambique (ADM) commissioned a project-financed report on options for airport infrastructure financing which was completed in August 2006. While the proposed Maputo Airport Concession (ACSA) has been cancelled, ADM is now seeking to mobilize funds for its Investment Plan, estimated at US\$94 million, including the Modernization of Maputo Airport Infrastructure (about US\$46 million) through only concessional borrowing.

37. To strengthen the management of natural resources, the government will issue regulations to the new Mining and Petroleum Fiscal Regime laws within 90 days once they have been approved by the Assembly. The Government will adopt the new model contract for mining concessions to complement the new law submitted to the Assembly (structural assessment criterion at end-June 2007). The model contract for the petroleum sector will be adopted by end-September 2007 (structural assessment criterion). The Government also remains committed to ensuring that any new mineral resource project agreements will adhere to the principles of the new law and its proposed regulations, and is using a model mining contract in its current round of negotiations, as well as new fiscal model to develop the capacity to undertake timely feasibility studies and financial modeling. The Government has also requested TA from the Fund to make the model petroleum contract more specific, and narrow the range of items for bidding or negotiation. In the interim, the Government is committed to avoiding signing any new Exploitation and Production Concession Contracts (EPCs) in the petroleum sector until a

new comprehensive petroleum fiscal regime is in place that would be embodied in the general tax law so as to avoid case by case negotiation of petroleum tax terms.

38. Improving transparency remains a priority for the Government. The Government intends to follow the EITI principles with regard to management of natural resources. The Government has already participated in a seminar in Oslo in 2006 on the EITI principles and will participate in a seminar in Maputo in 2007. The Government will consider becoming a member of the EITI in the future. In this regard, an EITI scoping study is planned under the Ministry of Planning and Development to assess the barriers to implementation and the net financial benefits and improvement in investment climate likely to accrue to Mozambique from the adoption of the EITI principles. Thereafter all new related agreements, in particular the future exploitation of coal, oil, titanium and natural gas as well as any new megaprojects (or expansion of existing megaprojects) will follow the EITI principles.

39. The monitoring of megaprojects and public enterprises in the research department of the MF will be further strengthened including through the compilation of a comprehensive database of financial information.

40. The Council of Ministers approved the Phase II of the public sector reform program (2006–11) building on the lessons from the implementation of the Phase I of this program (2001–05). The Phase II document sets four priorities for the public sector reform program: (i) the improvement of the delivery of public services to citizens and the private sector; (ii) the strengthening of the capacity of the local organs of the state which includes the implementation of a decentralization policy and strategy; (iii) the professionalization of public servants including introduction of performance evaluation systems and wage policy; and (iv) the strengthening of governance and anti-corruption systems. A special role is provided to districts as the focus of development which will be supported by improved planning, financial control, and operation of the new procurement system up to the district level. Public sector accountability through external and internal audits will be improved by reinforcement of the capacity of the Tribunal Administrativo, the supreme audit institution in Mozambique, and capacity building of the Inspector General of Finances. Importantly, a decentralization policy will be appraised by the Council of Ministers by end-June 2007 and submitted to the Assembly. Subsequently, a decentralization strategy will be approved by the Council of Ministers by June 2008. The strategy will propose, among other things, a clear legal, regulatory, and institutional framework for revenue raising and spending responsibilities and functions of subnational units (provinces, districts, and municipalities) and monitoring of subnational fiscal operations. The sequencing of the strategy will pay due regard to the administrative capacity of subnational units and need to maintain fiscal control. The results of the census will be incorporated in a preliminary wage policy to be discussed by the Council of Minister by end-November 2007 and implemented in the context of the 2009 budget. The next steps include the collection of baseline data for monitoring and evaluation of the results of the activities to be undertaken within the aforementioned priorities.

41. With regard to government's anti-corruption strategy, operational plans were developed in five sectors (Judicial, Interior, Finance, Education and Culture, and Health) in 2006 and completed in January 2007. Such plans form the National Action Plan to Fight Corruption and were submitted to the first session of the Anti-Corruption Forum in March 2007. The dissemination of the actions and outcomes to be undertaken by these sectors was initiated in a national workshop for the launching of the oversight and monitoring organs of the anti-corruption strategy that took place in March 2007 and was opened by the President of the Republic. The main organ that was set is the National Anti-corruption Forum chaired by the Prime Minister and having the Attorney-General as vice-chair. The Forum has 78 members and its other members include parliamentarians, religious leaders, representatives of business associations, trade unions, NGOs, and of the 11 provincial anti-corruption forums. Expected to meet once a year its routine work will be undertaken by small technical supervisory unit, headed by the director of the Central Office for the Fight Against Corruption (which operates from the Attorney-General's Office). The next step will be the setting of the baseline data for the monitoring of the various indicators included in the National Action Plan to Fight Corruption.

42. In the context of the implementation of the Anti-Money Laundering Law, the Government is also committed to creating a financial intelligence unit as soon as the law is adopted by the Assembly, hopefully during its current session.

43. The urban land use Regulation was approved by the Council of Ministers in October 2006, which will facilitate the reduction of costs and time involved in transactions. The Lei do Ordenamento do Território has been submitted to the Assembly for approval. The Government remains committed to conducting an economic analysis of urban land markets with a view to understanding how these function in practice, as well as assessing the associated poverty reduction impact analysis of urban tenure regulations and monitoring the implementation of the Land Law and its regulations. The survey of land holding in some selected districts in the southern part of the country will end in June 2007 and the titling after digitization is expected to be completed by the end of 2007. Finally, the Government is also preparing a draft strategy for slum upgrading.

44. The Government is committed to reinvigorate the reform of the judicial reform with the help of the international community. The main priority for the coming year is the redrafting of an integrated strategic plan for the justice system by June 2007, to set up a joint monitoring system for the entire legal sector, to strengthen mechanisms of sector coordination, and to draw up a vision of justice. The organic law of judicial tribunals is expected to be approved by the Assembly in the current session of the Assembly. Commercial and labor sections of the judicial tribunals will be expanded with the help of the international community. A new bankruptcy law and the Code of Penal Procedures will also be approved by the Council of Ministers and submitted to the Assembly by end-September 2007.

45. The Government is continuing its efforts to improve the quality of macroeconomic statistics in order to improve policy formulation and the monitoring of economic developments. To that end, the INE is aiming to launch a new national accounts

framework, including revision of annual GDP data and quarterly estimates by end-June 2007. With regards to monetary statistics, the BM is committed to aligning the chart of accounts with the Monetary and Financial Statistics Manual, including a breakdown between local and foreign-currency denominated accounts. The BM is also aiming to improve the quality of its external sector statistics, including by improving the coverage of megaprojects. With regards to government finance statistics, significant improvements have been made as a result of the launch of e-SISTAFE. However, the Government understands that further work is needed to expand the institutional and transactional coverage sufficient for compilation of the Funds in accordance with Government Finance Statistics (GFS) manual of 2001.

IV. PROGRAM MONITORING

46. The semiannual quantitative assessment criteria for end-June 2007 and end-December 2007 and indicative targets for end-September 2007 which will be used to evaluate the implementation of the program for the remainder of 2007 are shown in Table 1 of this memorandum, with further definitions and explanations contained in the annexed Technical Memorandum of Understanding. In addition, the Government has specified in Table 3 a list of structural assessment criteria and benchmarks for 2007.

47. The Government understands that the completion of the first review is contingent upon the observance of the assessment criteria for end-June 2007 set out in Table 1 and 3; which is expected to take place before end-December 2007. In reviewing developments under the program during the first review, particular attention will be paid to the implementation of measures aimed at broadening the tax base and further developing e-SISTAFE, the 2008 budget, monetary and financial sector reform, reducing the cost of doing business, infrastructure financing with due regard to debt sustainability, and improving the fiscal regime and transparency of natural resource exploitation and megaprojects as well as their net contribution.

Table 1. Mozambique: Quantitative Performance/Assessment Criteria and Indicative Targets, 2006-2007 1/
(In millions of MT, unless otherwise specified)

	2006			2007			
	End-Dec.	End-Dec.	End-Dec.	End-March	End-June	End-Sep.	End-Dec.
	Perf.	Perf.	Perf.	Indicative	Assessment	Indicative	Assessment
	Criteria	Criteria	Criteria	Target	Criteria	Target	Criteria
	Prog.	Adj.	Prel. Act.	Prog.	Prog.	Prog.	Prog.
Net credit to the government (cumulative ceiling)	-4,518	-4,518	-5,835	-938	-1,948	-1,713	-1,828
Stock of reserve money (ceiling)	14,038	14,288	14,736	13,596	14,235	14,990	16,020
Stock of net international reserves of the BM (floor, in millions of U.S. dollars)	1,063	1,029	1,229	1,253	1,283	1,341	1,300
New nonconcessional external debt contracted or guaranteed by the central government or the BM with maturity of one year or more (ceiling)	0	0	0	0	3	3	3
Stock of short-term external public debt outstanding (ceiling)	0	0	0	0	0	0	0
External payments arrears (ceiling)	0	0	0	0	0	0	0
Indicative targets:							
Balance of the government's savings account set up abroad with proceeds from the coal exploration contract (floor, in millions of U.S. dollars)	83	83	75	76	55	35	35
Government revenue (floor)	26,052	...	26,997	6,321	14,594	22,711	31,942

1/ For definition and adjustors see the attached Program Monitoring Section of Memorandum of Economic and Financial Polices and the Technical Memorandum of Understanding.

Note: While the new family of meticals (MT) was introduced in July 2006, values in this tables have been converted to MT to reflect this change for ease of comparison.

Table 2. Mozambique: Structural Performance Criterion and Benchmarks Under the 2006 and 2007 PRGF-Supported Program (October 2006–April 2007)

Actions	Expected Date of Implementation	Comments
Structural performance criterion		
Approval of the new draft Mining Fiscal Regime law by the Council of Ministers in line with best international practice.	End-December 2006	met
Structural benchmarks		
All budgetary operations for goods and services of Financial Management Departments (DAFs) of at least 22 additional ministries and organs (see attached list in the TMU), at the central and provincial levels, will be executed through the e-SISTAFE.	End-January 2007	met
A limited number of separate foreign currency accounts will be opened within the CUT.	End-March 2007	Delayed to end-September 2007
Completion of the civil service census.	End-April 2007	met

Table 3. Mozambique: Structural Assessment Criteria and Benchmarks Under the 2007 Policy Supported Instrument (June 2007–December 2007)

Actions	Expected Date of Implementation	Comments
Structural assessment criteria		
Adoption of the new model contract for mining concessions.	End-June 2007	
Adoption of the new model contract for the petroleum sector.	End-September 2007	
The level of effective direct budget execution via e-SISTAFE (according to the sequence of commitment, verification, and payment) for goods and services will be increased to 50 percent.	End-December 2007	
Structural benchmarks		
An integrated and e-SISTAFE compatible payroll database will be developed—register of the state employees (CAF)—enabling the Ministry of Finance to carry out salary payments via e-SISTAFE.	End-June 2007	
A limited number of separate foreign currency accounts will be opened within the CUT.	End-September 2007	
A memorandum of understanding will be agreed between the Ministry of Finance and the Bank of Mozambique, to shift the costs of managing monetary policy to the budget.	End-September 2007	
All budgetary operations for goods and services of Financial Management Departments (DAFs) of all remaining ministries at the central and provincial levels will be executed through the e-SISTAFE.	End-December 2007	

Attachment II

Technical Memorandum of Understanding on Selected Concepts, Definitions, and Data Reporting Under Mozambique's Policy Support Instrument Program

March 28, 2007

1. This technical memorandum of understanding (TMU) purpose is to describe the concepts and definitions that will be used in monitoring the Policy Support Instrument (PSI) program, including the following:

- net claims on the central government by the banking system;
- government revenue;
- net international reserves, and reserve money of the Bank of Mozambique;
- new nonconcessional external debt contracted or guaranteed by the central government or the Bank of Mozambique with a maturity of more than one year;
- short-term external public debt outstanding;
- external payments arrears; and
- foreign program assistance and external debt service.

This memorandum also describes the adjusters that will be applied to certain quantitative assessment criteria of the program.

Net Claims on the Central Government by the Banking System

2. **Net claims on the central government (NCG)** by the banking system is defined as the difference between the outstanding amount of bank credits to the central government and the central government's deposits with the banking system, excluding deposits in project accounts with the banking system and proceeds from the signing fee for coal exploration. Credits comprise bank loans and advances to the government and holdings of government securities and promissory notes. NCG will be calculated based on data from balance sheets of the monetary authority and commercial banks as per the monetary survey. The limits on the change in net claims on the central government by the banking system will be cumulative beginning end-December 2006 for the 2007 program.

3. The government encompasses all institutions whose revenue and expenditure are included in the state budget (*orçamento do Estado*): central government ministries, agencies, and the administration of 11 provinces. Although local governments (33 municipalities or *autarquias*) are not included because they are independent, the bulk of their revenue is registered in the state budget as transfers to local governments.

Government revenue and financing

4. Revenue is defined to include all receipts of the Domestic Tax Administration (Administração Tributária de Impostos or DGI), the National Directorate of Customs (Direcção Nacional de Alfândegas, DNA), and nontax revenue, including certain own-generated revenues of districts and some line ministries as defined in the budget. Net receipts from privatization received by the National Directorate of State Assets (Direcção Nacional

do Patrimônio do Estado) and unrealized profits transferred by the central bank to the treasury will not be considered as revenue (above the line) and will be accounted for as other domestic financing (below the line).

5. For the purpose of program monitoring, revenue is considered as collected at the time when it is received by the DGI from private agents or other government collecting agencies, in cash or checks, or through transfers into a DGI bank account.
6. An indicative target consisting of semiannual floors on the resources in the government's savings fund abroad has been added to monitor the use of the proceeds from the signing fee for coal exploration.

Money supply

7. **Base money** is defined as the sum of currency issued by Bank of Mozambique (BM) and the commercial banks' deposits in the BM. The commercial bank deposits include the statutory required reserves and excess reserves held at the BM. The base money ceilings for 2007 will be the total stock of base money outstanding at end-June 2007, end-September 2007 and end-December 2007, and will be monitored by the monetary authority and provided to the IMF by the BM.

Net international reserves

8. **Net international reserves** of the Bank of Mozambique are defined as reserve assets minus reserve liabilities. The Bank of Mozambique's reserve assets include (a) monetary gold; (b) holdings of SDRs; (c) reserve position at the IMF; (d) holdings of foreign exchange; and (e) claims on nonresidents, such as deposits abroad (excluding the government's savings account related to the Moatize coal mine concession). Reserve assets exclude assets pledged or otherwise encumbered, including but not limited to assets used as collateral or guarantee for a third-party external liability (assets not readily available.) The Bank of Mozambique's reserve liabilities include (a) all short-term foreign exchange liabilities to nonresidents with original maturity of up to and including one year; and (b) all liabilities to the IMF.
9. The Bank of Mozambique will publish the exchange rates quoted by commercial banks on average as the market rates.

New nonconcessional external debt contracted or guaranteed by the central government or the Bank of Mozambique with maturity of more than one year

10. The term "debt" will have the meaning set forth in Point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted on August 24, 2000. Government debt is outstanding debt owed or guaranteed by the central government or the Bank of Mozambique (but does not include debt of any political subdivision or government-owned entity with a separate legal personality that is not otherwise owed or guaranteed by the central government).
11. The central government will limit contracting or guaranteeing external debt up to US\$3 million with original maturity of one year or more with a grant element of less than

35 percent, calculated using currency-specific discount rates based on the Organization for Economic Cooperation and Development (OECD) commercial interest reference rates in accordance with the Budget Law. This assessment criterion applies not only to debt as defined in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted on August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received. This assessment criterion will be assessed on a continuous basis.

Stock of short-term external public debt outstanding

12. The central government will not contract or guarantee external debt with original maturity of less than one year. This assessment criterion applies not only to debt as defined in point 9 of the Guidelines on Performance Criteria with Respect to Foreign Debt adopted on August 24, 2000, but also to commitments contracted or guaranteed for which value has not been received. Excluded from this assessment criterion are short-term, import-related trade credits. This assessment criterion will be assessed on a continuous basis.

External payments arrears

13. The government undertakes not to incur payments arrears on external debt owed or guaranteed by the central government, with the exception of external payments arrears arising from government debt that is being renegotiated with creditors, including Paris Club creditors. This assessment criterion will be assessed on a continuous basis.

Foreign program assistance

14. Foreign program assistance is defined as grants and loans received by the Ministry of Finance through Bank of Mozambique accounts excluding those related to projects (Table 1).

Actual external debt-service payments

15. Actual external debt-service payments are defined as cash payments on external debt-service obligations of the government and central bank, including obligations to Paris Club and other bilateral creditors rescheduled under enhanced HIPC Initiative completion point terms, multilateral creditors, and private creditors, but excluding obligations to the IMF (Table 1).

Adjusters

16. The quantitative targets (floors) for the central bank's net international reserves will not be adjusted for any excess in disbursements of foreign program assistance (and any shortfall in external debt service), compared to the program baseline. These targets will be adjusted downward by 100 percent of any shortfall in external program aid (up to a maximum of US\$50 million) and any excess in external debt service payments, compared to the program baseline (Table 1). The quantitative targets (floors) for the central bank's net international reserves will be adjusted downward/upward for any revision made to the end-year figures corresponding to the previous year. They will also be adjusted upward for the full amount of any external privatization proceeds in excess of those envisaged in the

program, unless these proceeds are deposited in the government's savings account abroad. If they are deposited abroad, the indicative targets on the balance in this account will be adjusted upward for the full amount of the higher than envisaged proceeds, net of any costs related to the privatizations, including severance payments. The quantitative targets (floors) for the central bank's net international reserves will be adjusted equivalently downward up to a maximum of US\$50 million per annum by the amount that the projected fuel import bill is higher due to a rise in the average global oil price (average petroleum spot price of West Texas Intermediate, U.K. Brent, and Dubai Fateh crude). This adjustment will be equal to the difference between the realized and the projected average global oil price, multiplied by the volume of total fuel imports projected for each quarter (Table 2). In addition, the quantitative targets (floors) for the central bank's net international reserves will be adjusted upward (downward) by the amount of donor-financed projects deposited in the MT single treasury account (CUT) if they are higher (lower) than projected for each quarter (Table 1)

17. The quantitative targets (ceilings) for net claims on the central government (NCG) will not be adjusted for any excess in disbursements of foreign program assistance (and any shortfall in external debt service), compared to the program baseline. These targets will be adjusted upward by 100 percent of any shortfall in external program aid (up to a maximum of US\$50 million) and any excess in external debt service payments, compared to the program baseline (Table 1). These targets will also be adjusted downward for the full amount of any privatization proceeds in excess of those envisaged in the program, unless these proceeds are deposited in the government's savings account abroad. The quantitative targets (ceilings) for NCG will be adjusted downward (upward) for any increase (decrease) in domestic financing from the non-financial private sector. The government expenditures contingent on higher disbursements of foreign program assistance (and lower external debt service) will be used to finance greater "priority" spending identified in the budget.

18. The quantitative target (ceiling) for net claims on the central government (NCG) for end-June 2007, end-September 2007 and end-December 2007 will be adjusted upward (and the floors on net international reserves adjusted downward) to accommodate the possible need for higher locally financed government outlays to deal with natural disasters, up to a total limit of MT 500 million.

19. The base money ceiling will be adjusted equivalently upward up to a maximum of MT 300 million at end-June 2007, end-September 2007, and end-December 2007 to the extent that the outstanding stock of currency issued by the BM exceeds those projected in Table 3.

Data reporting

20. In addition to providing the monthly and quarterly data needed to monitor program implementation in relation to the programs' quantitative targets and broader economic developments, the authorities will provide weekly updates of the daily data set out in Table 3 as well as the weekly data set out in Table 4 of the TMU dated May 26, 2005. Monthly updates will also be provided of the foreign exchange cash flow of the Bank of Mozambique.

21. The government will continue to provide Fund staff with the data corresponding to monthly government revenues (in detail according to the fiscal table), with a lag not exceeding one month. In addition, the government will continue to publish and provide Fund staff with the quarterly budget execution reports with a time lag not exceeding 45 days.

22. In addition, the government will provide monthly information on the balance of its savings account abroad and will start developing and providing information on domestic arrears on a quarterly basis.

23. From December 2005 onwards, the monetary survey made available by the Bank of Mozambique will clearly identify donor-financed project deposits (with a breakdown between foreign and domestic currency) included in net credit to the government in both the central bank's and commercial banks' balance sheets.

Table 1 Mozambique: Foreign Program Assistance and External Debt Service for 2007
(In millions of MTn; unless otherwise indicated)

	2007				
	Q1 Prog.	Q2 Prog.	Q3 Prog.	Q4 Prog.	Year Prog.
Foreign program assistance	3319.5	3195.5	3211.5	452.9	10179.5
Program grants	1469.6	2384.5	3211.5	452.9	7518.6
Program loans	1849.9	811.0	0.0	0.0	2660.9
External debt service	-154.7	-115.9	-115.9	-115.9	-502.4
Disbursement of donor-financed projects (in millions of US dollars)	0.0	0.0	0.0	0.0	0.0

Source: Mozambican authorities; and Fund staff estimates.

Table 2. Projected Fuel Import Bill, 2006-07
(In millions of U.S. dollars, unless otherwise indicated)

	2006		2007			
	EBS/06/156	Act.	End-Mar. Prog.	End-Jun. Prog.	End-Sept. Prog.	End-Dec. Prog.
Fuel Import Bill	312.1	345.8	71.0	84.3	116.6	81.3
Forecast Oil price (US\$ per barrel)	61.3	62.5	56.5	60.5	62.5	63.5
Volume of fuel imports (in metric tons)	520,969	552,905	151,213	140,514	202,246	122,416

Sources: Mozambican authorities and Fund staff projections.

Table 3: Currency Issued by the BM
(In millions of MTn, stock)

	2006		2007			
	End-December EBS/06/156	End-December Actual	End-March Prog.	End-June Prog.	End-September Prog.	End-December Prog.
Currency issued by						
BM	7,690	8,789	7,305	7,800	8,797	9,649

Source: Mozambican authorities; and Fund staff projections.

SISTAFE Implementation Plan

Action	Expected date
Rollout to the following Ministries and Organs: <ol style="list-style-type: none"> 1. Ministry of Labor; 2. Ministry of Former Combatants 3. Ministry of Youth and Sports 4. Ministry of Foreign Affairs and Cooperation 	end-December 2007