Republic of Mozambique
Ministry of Finance
National Budget Directorate

CITIZEN'S BUDGET

1st Edition, December 2011

Vision: To ensure citizen's participation in all phases of the budgetary process: from drafting and implementation to monitoring.

Mission: To inform citizens about the relevant aspects of the State Budget in simple and accessible language.

As part of its commitment to the transparent management of public resources, the Government of the Republic of Mozambique puts at the disposal of citizens the relevant aspects of the State Budget for the 2012 financial year in simple and accessible language.

This instrument, in its first edition, was designed and developed by the National Budget Directorate in the Ministry of Finance. It seeks to inform you, the citizen, about relevant aspects of the State Budget, including the revenue to be raised and the programmed expenditure to be made.

Citizens have the duty to pay their contributions and taxes[1], and so they have the right to know how these funds are used by the Government, that is how their money, transferred to the Government via taxes, is spent

What is the State Budget?
The State Budget is a document in which the revenue to be raised is forecasted and the expenditure to be undertaken in a particular financial year is fixed. Its purpose is to pursue the financial policy of the government.

Who creates the State Budget?
The state institutions at central and local (Provincial and District) level make their proposals which are later harmonised and consolidated by the National Budget Directorate, in coordination with the National Planning Directorate in the Ministry of Planning and Development, with the participation of the National Treasury Directorate and the proposing institutions.

Who approves the State Budget?
Once the draft State Budget has been harmonised, it is analysed by the Government and submitted to the Parliament which approves it, thus transforming it into a law. Compliance with the budget is then obligatory for all state institutions.

What functions does the State Budget have?
✔ To guarantee balance between revenue and expenditure, ensuring that the expenditure is covered by estimated revenue;

✔ To fix the expenditure for each state body and institution, setting limits on the recurrent and the capital expenditure;

✔ To set out the financial plan, because it is on this basis that economic agents form their expectations, set up their activities and foresee the results of their economic units. The financial plan shows, among other items, the public works that will be undertaken, and the subsidies that will be granted.

What is Public Revenue?
Public revenue consists of all resources, in money or in kind, regardless of their source or nature, which are put at the disposal of the state, except those where the state is merely a temporary custodian[2].

How is revenue collected?
Revenue results from the contribution and taxes from citizens and companies, from payment for the provision of services by state bodies and institutions, and grants and credits from individuals, and from national and foreign government and non-governmental bodies.

How is an item of revenue established?
Revenue item can only be established by law.

When can revenue be collected?
Revenue can only be collected if it is established by law, and is envisaged in the State Budget.

Graph 1. Evolution of the weight of types of revenue in the State Budget
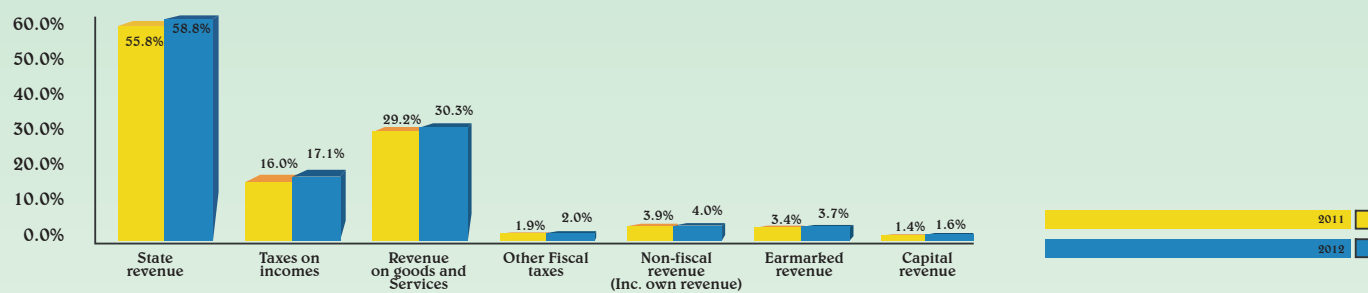
What is public expenditure?

Public expenditure consists of all outlays of resources, monetary or in kind, regardless of their source or nature, spent by the State, except those where the beneficiary is obliged to replace them[3].

Public expenditure is subdivided into: running costs and capital costs.

What are recurrent costs? These are the costs spent to ensure the functioning of State institutions, such as the payment of wages and other remuneration to state employees and agents, goods and services intended for use by state institutions, pensions paid to civilian and military pensioners, subsidies on prices and companies, and interest paid on public debt.

What are investment costs? These are the costs of building and rehabilitating infrastructures, such as: schools, hospitals, roads, bridges, water supply sources, and electrification, among others.

How is the envelope of resources and its allocation to public expenditure estimated? The estimate of the resource envelope and its allocation is undertaken through the Medium Term Fiscal Framework (CFMP), the results of which determine the amount of resources to be allocated among state institutions.

The process of drawing up the CFMP covers all state bodies and institutions at central and local (Provincial and District) level and is coordinated by the Ministries of Planning and Development (MPD) and of Finance (MF).

The State Budget 2012

The budgetary policy for 2012 expresses the activities of the 2012 Economic and Social Plan (PES) and rests on pursuing the objectives of government policy as contained in the Government Five Year Programme (PQG) 2010-14 and the Poverty Reduction Action Plan (PARP) 2011-14, the central focus of which is the fight against poverty and the promotion of sustainable, inclusive and wide-encompassing economic growth.
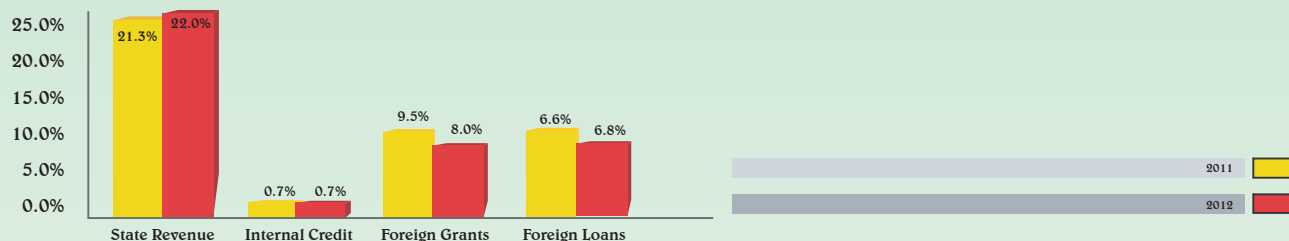
Macroeconomic assumptions made for the State Budget 2012. The State Budget 2012 assumes a real growth rate in Gross Domestic Product (GDP) of 7.5%, an annual average inflation rate of 7.2% and a level of nominal depreciation of the Metical against the US dollar that can increase the competitiveness of Mozambican exports.

Estimate of Resources for the State Budget 2012. The total envelope of resources programmed for the 2012 financial year is estimated at US$ 5.163 billion. Of this sum, US$ 3,025 billion will come from state revenue; US$ 99.8 million will be resources resulting from contracting domestic debt and US$ 2,038 billion will come from external financing.

For 2012, the Government will continue to promote sustainable and inclusive socio-economic growth, focused on rural development, the fight against urban poverty, the provision of basic social services, infrastructures, particularly agricultural mechanisation and access to roads, vital factors for driving the expansion of the productive capacity of the economy.

Table 1. Macro-economic Assumptions for the State Budget 2012

		Forecast	
	2010	2011	2012
GDP (nominal; USD millions	9,580	12,355	13,720
Real GDP growth	6.8	7.2	7.5
Annual average inflation (%)	12.7	10.8	7.2

3 Article 15, paragraph 1, of Law 9/2002 of 12 February – Law on SISTAFE

Graph 2. Composition of State Resources (% of GDP)

Graph 2. Composition of State Resources (% of GDP)

- State Revenue: 21.3% (2011), 22.0% (2012)
- Internal Credit: 0.7% (2011), 0.7% (2012)
- Foreign Grants: 9.5% (2011), 8.0% (2012)
- Foreign Loans: 6.6% (2011), 6.8% (2012)

2011
2012

Forecast of State Revenue

Total state revenue for 2012 is set at US$ 3,025 billion, representing about 22.0% of GDP, an increase of 0.7 percentage points (pp) on the forecast collection of revenue for 2011. This forecast rests on the assumption that an effort will be made in the tax and customs area to implement fiscal reforms, through actions leading to increased levels of efficiency in the fiscal administration and in diversifying the sources of revenue.

Forecast of State Expenditure

Total expenditure will rise from US$ 4,309 billion in 2011 to US$ 5,163 billion in 2012. Of these, US$ 2,675 billion are recurrent costs; US$ 2,075 billion are investment costs; and US$ 413 million refer to state financial operations. In overall terms, the expenditure represents about 37.6% of GDP, a reduction of 0.5pp compared with 2011, as a reflection of the adoption of a restrictive budgetary policy.

Graph 3. Composition of the State Budget (% of Total Expenditure)

- 2011: 2.4% Recurrent costs, 45.7% Investment costs, 52.0% Financial operations
- 2012: 8.0% Recurrent costs, 40.2% Investment costs, 51.8% Financial operations

Recurrent costs
Investment costs
Financial operations

The nominal increase in the volume of state expenditure is fundamentally justified by the need to expand the provision of social services, namely: education, health and basic infrastructures, such as water supply, sanitation and roads, as part of the actions to fight against poverty.

Resources are envisaged for hiring teachers and health workers, and for the physical expansion of the school and health networks.
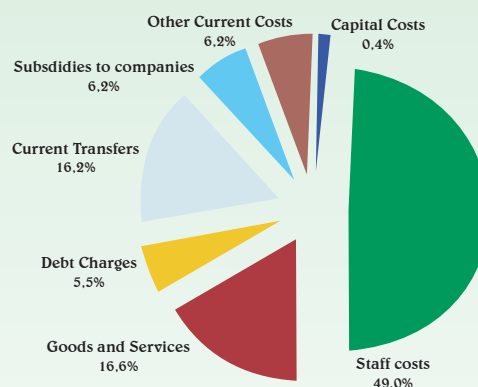
Running costs

The running costs account for 51.8% of total state expenditure and are distributed as shown in graph 4.

Also programmed are new recruitment, progressions and promotions for 2012:

Investment expenditure

For 2012, investment expenditure represents 40.2% of the total budget envelope, corresponding to 15% of GDP, a reduction of 2.3pp in comparison with 2011. Of this sum, 5.1% of GDP is expenditure financed by internal resources and the remaining 9.5% by external resources directly supporting public investment projects.

Graph 4. Composition of the running costs (% of total expenditure)

- Other Current Costs: 6,2%
- Capital Costs: 0,4%
- Subsidies to companies: 6,2%
- Current Transfers: 16,2%
- Debt Charges: 5,5%
- Goods and Services: 16,6%
- Staff costs: 49,0%

Graph 5. Plan of Recruitment of Public Servants for 2012

- Total Recruitment: 13.000 (2011), 13.000 (2012)
- Other Sectors: 2.500 (2011), 3.000 (2012)
- Justice: 2.00 (2011), 5.00 (2012)
- Health: 1.800 (2011), 1.000 (2012)
- Education: 8.500 (2011), 8.500 (2012)
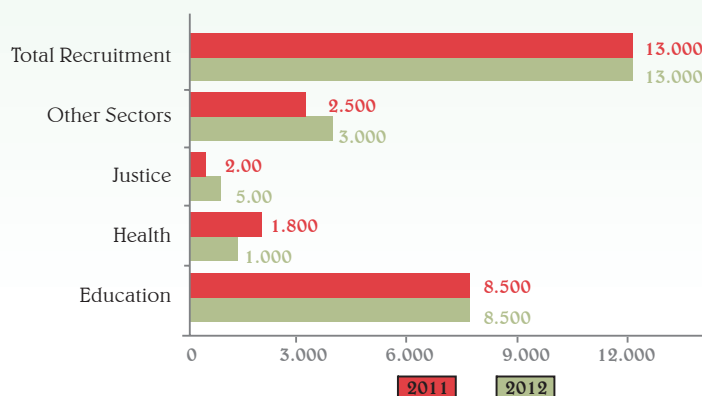
2011
2012

Table 2. Budgetary impact of New Recruitment for 2012

Sectors	Budgetary Impact (USD millions)	
	2011	2012
Education	14,0	21,2
Justice	2,4	5,6
Health	1,2	1,0
Other Sectors	15,1	19,8
Total Staff	32,7	47,6

For 2012, the Government will continue with investments in the priority areas stated in Poverty Reduction Action Plan, as well as to expand and increase the quality of goods and services provided for the public.

The concentration of the greatest volume of resources in these areas derives from the general recognition of their importance in poverty reduction, notably:

Agriculture with US$ 56.7 million, with a focus on:
✔ Save Valley Irrigation Project (Pivosa);
✔ Food Production Action Plan;
✔ Promotion of the Green Revolution in Zambézia province.

Health with US$ 23.3 million particularly for:
✔ Acquisition of medical and surgical equipment;
✔ Construction of health units of levels I, II, III and IV.

Education with US$ 35.3 million with particular focus on:
✔ Construction of the Tete Higher Polytechnic Institute of Geology and Mines;
✔ Construction of the Chimoio Commercial and Industrial School;
✔ Construction of the Gaza and Manica Polytechnic Institutes;
✔ Level III education.

Infrastructures with US$ 182.8 million destined for:
✔ Projects to Maintain and Rehabilitate Bridges, and Urban and District Roads;
✔ Improving highway N13 Nampula-Cuamba;
✔ Improving highway N11 Milange-Mocuba

US$ 13.28 million is allocated for Water Supply throughout the country.

For Social Programmes, the Government has allocated US$ 21.9 million, particularly for:

✔ Basic Social Subsidy
✔ Direct Social Support
✔ Social Welfare Services.

Included in the Investment Expenditure are the resources for undertaking local initiative projects aimed at:

✔ Promotion of rural income generation, employment, self-employment and food production projects in order to foster local development under the District Development Fund (FDD), commonly known as "the 7 million meticais";

✔ Construction and rehabilitation of district infrastructures and financing investment initiatives that form part of the Strategic Poverty Reduction Programme (PERPU) in the urban districts of the provincial capitals and of Matola and Maputo cities.

Table 3. Main Investment Actions		
	Millions of USD	
	2011	2012
District Development Fund	32.8	41.9
District Infrastructures	27.7	46.8
Fight against Urban Poverty (PERPU)	4.3	4.4
Total	64.8	93.1

Fiscal Decentralisation in Mozambique

What is Decentralisation?

Decentralisation means taking the decision making centre to the lower hierarchical level, putting decision making powers within the local authority, which is as close as possible to the level where decisions will be implemented.

Decentralisation seeks to raise the level and quality of interaction between the State, Citizens and their Institutions, and in improving selection of the content of the public programmes, taking into account specific local and regional needs, thus contributing to greater equity. It also seeks to reduce red tape, bringing the decision making centres closer to citizens, making them the points of departure and arrival for government action.

Thus decentralisation includes a series of at least three elements, namely:

✔ Administrative aspects: with the transfer of management powers in the provision of particular public services and of police management;

✔ Fiscal aspects: with the transfer of the responsibility for obtaining the resources necessary to finance the policies (activities to implement their plans);

✔ Policy aspects: with autonomous decision-making not only as to the form of promoting the policy, but in the very choice between the different services to be provided and their financing structure.

In other words, decentralisation is a public administration reform that seeks to give District and Municipal Governments more decision-making powers, resources and possibilities of interacting better and directly with the beneficiaries – the public.

Objectives of Decentralisation

✔ To promote autonomy and independence in decision-taking at lower levels, building the capacity and improving the use of human resources, transforming the lower levels into local executives motivated by results;

✔ To raise District Governments to the centre of decision making about actions and projects to be implemented in the districts, seeking to obtain immediate, concrete and palpable results in improving the life of the population;

✔ To promote inclusive and more wide-ranging local development;

✔ To bring governance closer to citizens.

Challenges of Decentralisation

✔ To guarantee the sustainability of the FDD initiative;
✔ To ensure an increase in the Fund for public infrastructures and for the provision of public services;
✔ To transfer more powers to the Districts;
✔ To encourage the collection of revenue and promote its decentralisation.

Examples of Decentralisation

✔ District Development Fund (FDD);
✔ Social Protection Programme;
✔ District infrastructures Fund;
✔ Strategic Programme for Urban Poverty Reduction (PERPU).