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EC Multiple Framework Contract Beneficiaries
Lot N 11: Macro Economy, Public Finances and Regulatory Aspects

Specific Contract n° 2009/208867/1

**« Évaluation des finances publiques selon la méthodologie
PEFA (Public Expenditure and Financial Accountability) à
S. Tomé et Príncipe »**

Beneficiary Country: Sao Tomé and Príncipe



Final Report

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« *Évaluation des finances publiques selon la méthodologie PEFA (Public Expenditure and Financial Accountability) à S. Tomé et Príncipe* »

By

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The views expressed in this report do not necessarily reflect the views of the European Commission.

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List of Abbreviations

AN	National Assembly
ANP	Agência Nacional do Petróleo National Petroleum Agency
BCSTP	Banco Central de São Tomé e Príncipe Central Bank of São Tomé e Príncipe
CAD	Development Assistance Committee (of OECD)
CCIAS	Chamber of Commerce, Industry, Agriculture and Services
CFAA	Country Financial Accountability Assessment
CGE	Conta Geral do Estado General State Accounts (Annual Public Accounts)
COFOG	Classifications of Functions of Government
CS-DRMS	Commonwealth Secretariat - Debt Recording & Monitoring System
CST	Telecommunications Company of STP Companhia São-tomense de Telecomunicações
CUT	Single Treasury Account
DA	Direcção de Alfândegas Directorate of Customs
DI	Directorate of Tax
DO	Directorate of the Budget
DP	Directorate of Planning
DT	Directorate of Treasury
EC	European Commission
EMAE	Water and Electricity Company Empresa de Água e Electricidade
EMOLVE	Vegetable Oils Company Empresa de Óleos Vegetais
ENAPORT	National Ports Company Empresa Nacional de Administração dos Portos
ENASA	National Airports and Air Safety Company Empresa Nacional de Aeroportos e Segurança Aérea
FAD	Fiscal Affairs Department (of the International Monetary Fund)

FEF	Fundo de Equilíbrio Financeiro Municipal Financing Fund
GBS	General Budget Support
GFP	Public Finance Management
GFS	Government Financial Statistics
IGF	General Inspectorate of Finances (Internal Audit)
IMF	International Monetary Fund
INTOSAI	International Organization of Supreme Audit Institutions
ME	Ministry of Education
MPF	Ministry of Planning & Finance
MTEF	Medium-Term Expenditure Framework
NIF	Fiscal Identification Number
OCDE	Organisation for Economic Co-operation and Development
OE	State Budget
PEFA	Public Expenditure and Financial Accountability
PFM	Public Finance Management
PFM-PR	PFM Performance Report
PI	Performance Indicator
PICATFin	Programa Integrado de Cooperação e Assistência Técnica em Finanças Públicas Integrated Programme of Cooperation and Technical Assistance in Public Finance
QDMP	Quadro de Despesas a Medio Prazo Medium-Term Expenditure Framework
RT	Relatório Trimestral Quarterly Expenditure Report
SAI	Supreme Audit Institution
SAFE	Sistema de Administração Financeira do Estado Integrated System of State Finance Management
TC	Tribunal de Contas Court of Accounts (São Tome & Príncipe's Supreme Audit Institution)

Acknowledgements & Disclaimer

ACE (Asesores de Comercio Exterior S.L), was contracted by the European Commission to undertake an assessment of the Public Finance Management (PFM) system of São Tomé & Príncipe and, to this end, mobilized a team of 3 experts: Andrew Lawson (Team Leader, Fiscus Limited), Luis Maximiano and Emmanuel Ngassa. The work has been undertaken, under European Commission financing on behalf of the Government of São Tomé & Príncipe and its Development Partners.

This Final Report presents the results of an independent external assessment of Public Finance Management in São Tomé & Príncipe undertaken in September 2009. The assessment applies the PEFA (Public Expenditure & Financial Accountability) methodology. It is based on (i) working meetings and semi-structured interviews conducted between 1st and 18th September 2009, (ii) a detailed desk review of the data, official documents, legislation and other reports made available to the team, and (iii) the analysis of the team. Comments on the draft report were received from the Government of São Tomé & Príncipe, its Development Partners and the PEFA Secretariat in Washington D.C. and have been incorporated into this version. A Draft Final Report was presented for discussion and review in São Tomé in January 2010 and relevant comments and observations have also been incorporated into this Final Report. (including a change in the scoring of PI-8 from “B” to “A”.)

We would like to thank Her Excellency, Ângela Maria da Graça Viegas Santiago, Minister of Planning & Finance, for her unequivocal support to the evaluation. We would also like to express our gratitude to Dra. Joana Damiana Varela, Coordinator of the PFM Reform programme, Ministry of Planning & Finance who has assisted the team to establish a successful working schedule and helped to coordinate all the necessary inputs from the Government.

Also a special word of thanks to Mr. Kelpton Neto of the Ministry of Planning & Finance, who worked with the team almost on a daily basis and to all the members of the PEFA Steering Committee, notably Dra Joana Damiana Varela (Coordinator), Dra Ana Maria de Conceição Silveira (Director of Treasury), Dr. Américo de Oliveira Ramos (Director of Budget), Dr. Filipe Moniz (Director of Planning) and Dr. Raúl d’Almeida Viana (Inspector General of Finance).

Summary Assessment

This report provides an assessment of the status of the PFM systems and processes of São Tomé & Príncipe, up to the conclusion of the 2008 budget cycle, taking account of the accounting and audit information on past years produced during 2009. It includes a ranking of the status of PFM systems and processes, a review of the trends emerging during 2009 and, in this Summary Assessment, an examination of the implications of these findings. It is based upon the use of the PEFA methodology, which the government of São Tomé & Príncipe intends to adopt as the standard method for assessing the quality of its PFM systems. The 2009 PEFA thus lays down a benchmark, against which it will be possible to assess progress in the implementation of PFM reforms.

(i) Assessment of PFM systems

São Tomé & Príncipe has since 2006 been pursuing a programme of reforms to its public finance management system. These have focused initially on the strengthening of human resource capacities, on the development of an interim software solution for the establishment of integrated financial management processes (the SAFINHO system) and, perhaps most notably, the modernization of the legal framework. Significant progress has been made in each of these areas and they are already starting to have an impact on the quality of financial management. Nevertheless, the process of PFM reform is still in its early stages and, for the most part, the benefits of the investments made to date will not be reaped until the future

We make this point at the outset because the overall ranking of PFM systems which emerges from the PEFA assessment is a low one. Across many areas, there remain significant weaknesses which will need to be corrected if a reliable public finance management system is to be established. To those at the heart of the PFM process, who have been diligently pursuing a serious PFM reform agenda for the past 3-4 years, this will certainly be disappointing. However, it is essential that this finding should be taken in the right perspective. Many Sub-Saharan African countries have been pursuing PFM reforms for 10 years or more. In a number of these, reforms have stalled or been reversed and few benefits have emerged. In the countries where there has been more success, significant benefits have not generally been witnessed until five years or more of reform implementation¹. Given the severe human resource constraints which São Tomé & Príncipe faces, it would be unreasonable to expect a significantly faster return from investments in improved PFM systems. Current reforms have improved systems, are very likely to generate further improvements over the next year or so and with modest changes and amendments to the current programme of reforms can be expected to have a wider impact over a 2-3 year period.

Below we present an overview of the ranking of the PFM system for 30 indicators of the PEFA methodology². Chapter 4 presents the detailed justification for these scores.

¹ This is true of Mozambique and Cape Verde within Lusophone Africa but also of Tanzania, Ethiopia, Mali and Burkina Faso, looking more widely. Indeed, we are unable to identify from the published data and our personal experience, any country which has witnessed significant reform benefits in a period of less than five years.

² One of the indicators of Donor Practices (D1) is not applicable because budget support has only been provided during 2009.

Figure 1: São Tome & Príncipe: Overview of PEFA scores, September 2009

INDICATOR		2009 Scoring
A. PFM OUT-TURNS: Credibility of the Budget		
PI-1	Aggregate expenditure out-turn compared to original approved budget	C
PI-2	Composition of expenditure out-turn compared to original approved budget	D
PI-3	Aggregate revenue out-turn compared to original approved budget	A
PI-4	Stock and monitoring of expenditure payment arrears	C+
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness & Transparency		
PI-5	Classification of the Budget	B
PI-6	Comprehensiveness of information included in budget documentation	C
PI-7	Extent of unreported government operations	C
PI-8	Transparency of inter-governmental fiscal operations	A
PI-9	Oversight of aggregate fiscal risk from public sector entities	D+
PI-10	Public access to key fiscal information	C
C. BUDGET CYCLE		
C(i) Policy-Based Budgeting		
PI-11	Orderliness and participation in the annual budget process	D
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	D+
C(ii) Predictability and Control in Budget Execution		
PI-13	Transparency of tax-payers' obligations and liabilities	B
PI-14	Effectiveness of measures for tax-payer registration and tax assessment	B
PI-15	Effectiveness in collection of tax payments	D+
PI-16	Predictability in the availability of funds for commitment of expenditures	D+
PI-17	Recording and management of cash balances, debt and guarantees	D+
PI-18	Effectiveness of payroll controls	D
PI-19	Competition, value for money and controls in procurement	C+
PI-20	Effectiveness of internal controls for non-salary expenditure	D+
PI-21	Effectiveness of internal audit	D+
C(iii) Accounting, Recording and Reporting		
PI-22	Timeliness and regularity of accounts reconciliation	D
PI-23	Availability of information on resources received by service delivery units	D
PI-24	Quality and timeliness of in-year budget reports	D+
PI-25	Quality and timeliness of annual financial statements	D
C(iv) External Scrutiny and Audit		
PI-26	Scope, nature and follow-up of external audit	D+
PI-27	Legislative scrutiny of the annual budget law	D+
PI-28	Legislative scrutiny of external audit reports	D
D. DONOR PRACTICES		
D-1	Predictability of Direct Budget Support	NA
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	D
D-3	Proportion of aid that is managed by use of national procedures	D

Overall, the scores are low. The one significant area where legislative reforms and capacity building processes are beginning to have an impact is in the area of revenue collection, where an "A" score is achieved for the consistency of collections with projections (PI-3) and "B" scores both for the Transparency of tax-payers' obligations and liabilities (PI-13) and for the effectiveness of measures for tax-payer registration and tax assessment (PI-14).

In other areas, there are significant weaknesses – in budgeting processes, expenditure control systems, internal and external audit and, most notably, in accounting, reporting and recording. The most serious

weakness – which has been repeatedly stressed by the missions of the IMF’s Fiscal Affairs Department - has been the failure to issue regular annual accounts (the *Conta Geral do Estado*). Without presenting its formal annual accounts, the Government cannot be held accountable: it is impossible to compare the budget as actually executed against the State Budget approved by the National Assembly. This is much more than a mere formality: it is a major gap in the process of democratic accountability and no stakeholder – domestic or external – can be expected to have confidence in the country’s PFM system so long as this gap persists. On the positive side, this is a gap which could feasibly be addressed during 2010, as we discuss below.

The absence of an annual set of government accounts (CGE) has direct implications for the quality of external audit and for the quality of legislative scrutiny of audit reports. Within the judicially based system which is followed in São Tomé & Príncipe (based upon a Court of Accounts), the only audit report which should be tabled annually before the Legislature according to the SAFE law is the TC’s review and comment on the CGE. In the absence of a CGE, indicator PI-28 (legislative scrutiny of external audit reports) is automatically scored as a “D” and indicator PI-26 as “D+” or less³.

In relation to internal and external audit, the other key source of shortcomings is a basic lack of capacity: essentially, the number of qualified internal and external auditors working for IGF and the Court of Accounts is insufficient to achieve an adequate level of coverage of audited institutions. Allied to this, there is a problem of how work is programmed – it is important to focus audit work on high risk institutions or high risk processes, where the potential for misappropriation of resources or for inefficient use of resources is higher. In addition, it is important to focus internal audit work on systemic issues and problems rather than simply on questions of compliance. Where coverage is limited and it is not well targeted, then internal and external audit do not act as an effective control on resource management.

Weaknesses in budgetary preparation processes and in expenditure control systems are also serious and are almost certainly the cause of the poor scores achieved on the overall credibility of the budget (PI-1 and PI-2). However, some of the problems in these areas have already been partly addressed by improvements introduced in the course of 2009, while there are some relatively simple improvements of systems and procedures which could be introduced in 2010 which would make a big difference in these areas.

(ii) Implications of the Assessment for the achievement of the three key Objectives of an effective PFM system

An effective PFM system should achieve three key objectives:

- Firstly, the achievement of aggregate fiscal discipline;
- Secondly, the effective allocation of resources to strategic priorities; and
- Thirdly, operational efficiency in the delivery of public goods and services.

Given the serious and wide-ranging weaknesses in its current PFM system, the Government of São Tomé and Príncipe is not adequately equipped to meet any of these objectives on a consistent and systematic basis. Its track record on macro-economic management is reasonably good and it managed to remain sufficiently on-track with the IMF’s PRGF programme for 2006 -2008 to complete the programme and negotiate a new PRGF facility for the period 2009-2011. However, the mechanisms for the control of arrears – in particular to the national water and electricity company (EMAE) and to the national telephone company (CST) – did not prove robust enough to prevent the growth of arrears. Indeed, the authorities were only able to remain on-track with the IMF by settling the high levels of arrears which had accumulated by September

³ This is because the second dimension on PI-26 relates to the timeliness of submission of the TC’s reports to the Legislature. With no CGE to report upon, no report share tabled which automatically earns a “D” for this dimension and because this indicator is based on the “weakest link” scoring methodology (M1), the maximum score is therefore “D+”.

2008, through the use of part of the proceeds of the privatizations of CST and of ENCO, the petroleum distribution company.

The allocation of resources to strategic objectives is undermined by weaknesses in budgeting and expenditure control which have meant that the overall consistency of the final executed budget with the originally approved budget has generally been poor. Without improving this consistency (and thus achieving better scores against PI-1 and PI-2), the Government will struggle to ensure that resources go to priority areas.

Finally, the overall framework of control and oversight over the execution of the budget is too weak for operational efficiency in delivery of goods and services to be consistently achieved.

(iii) Developments in PFM systems during 2009 and their implications

Ongoing reforms to treasury management and cash-flow planning in São Tomé & Príncipe will start to impact positively on PEFA scores within a short space of time. For example, the increased use of the CUT and the progressive reduction of the use of commercial bank accounts should improve the ranking of PI-17 (recording and management of cash balances, debt and guarantees) and PI-22 (Bank account reconciliation).

Similarly, the implementation of new legislation on Procurement combined with the establishment of the sector procurement units (UGLs) and COSSIL as the coordinating and oversight body is already having a positive impact on the quality of procurement. It will be important to consolidate these institutional reforms by setting up the Conflict Resolution Committee and making it fully functional.

(iv) Priorities for 2010 and beyond⁴

Across many of the areas of weakness here described, it should be possible through concerted efforts during 2010 and 2011 to achieve significant improvements in the quality of PFM systems. As we have noted above, the priority must be to start publishing an annual statement of accounts (CGE) as soon as possible. In this respect, it is our judgement that with modest technical assistance support, it should be possible to publish the 2009 CGE during 2010.

We were advised that the CGE has not been regularly published firstly because there is no Accounting Department to do it and secondly because the accounting skills necessary to produce a proper accounting statement (including a statement of assets and liabilities) have yet to be developed. Here, we believe that the authorities have allowed the pursuit of the best to become the enemy of the good. The Treasury and Budget Departments have the capability to produce an annual statement which would fulfil 85 % of the requirements of a comprehensive CGE. We would recommend that they seek technical assistance support from an adequately qualified public accountant so as to prepare a CGE for 2009, thus re-establishing an annual practice which can then be taken over and developed by the forthcoming National Accounts department.

In addition to this one high priority initiative, we would recommend actions to improve procedures and controls across the following areas:

⁴ Although PEFA Guidelines counsel against the presentation of recommendations for PFM reform actions, the team were requested by the Authorities to present recommendations on the key priorities. Clearly, these recommendations need to be reviewed by Government against internal perceptions of where priorities lie and where efforts should therefore be focused. Detailed discussions on the reform programme took place during the presentation of the Draft Final Report in January 2010 and Government plan to issue an updated plan of action on PFM reform, based largely on these discussions.

- Updating of the Budget Preparation Calendar, in order to start budget preparation earlier, allow more time for budget elaboration by sector ministries and include a discussion of ceilings for budget preparation with the *Conselho de Ministros*.
- Improve the coverage and quality of the Quarterly Expenditure Reports (RTs) currently being produced through the SAFINHO system, notably by presenting data according to an administrative (organic) as well as an economic classification, and including data on commitments (cabimentações), authorisations (liquidações) and payments.
- Introduction of systematic controls on the payment of utility charges to EMAE and CST.
- Introduction of a complete set of procedures for budgeting for the use of own revenues (*receitas próprias*) and for accounting for their use ex post. (Current procedures effectively cover the banking process only).
- Introduction of monthly or weekly routines for comprehensive bank reconciliation.
- Improved procedures for recording of central government loan guarantees.
- Nomination and establishment of the appeal bodies for Tax, Customs and procurement.
- Improving the quality of information included in the Budget Proposal and making this (the Executive's Budget proposal) available to the public on a timely basis in addition to the Quarterly Expenditure Reports (RTs) and the CGE.

All of these comprise practical steps to tighten controls and modernise procedures so that they come closer to international best practice. As a whole, they can make a very real difference to the quality of the PFM system and would significantly improve PEFA scores. With careful planning and follow-up, it should be feasible to introduce the majority of these measures during 2010.

Giving more attention in the short term to the modernisation of procedures and the tightening of controls may require some reprogramming of the reform activities currently planned in relation to the introduction of the new e-SAFE system and the development of medium term planning and budgeting capacities. Both of these are fundamentally important but we believe that the current implementation timetables are too ambitious and risk generating significant problems in their implementation:

- In relation to the e-SAFE system, it is much better to introduce this slowly and effectively rather than quickly and badly. Time is needed to ensure that the conceptual design correctly captures all the key functions and processes which it is planned to automate. A key function to be automated will be the annual preparation of the CGE. With no manual process for its production yet in place, there is a high risk of making mistakes in the conceptual design. Is this necessary? Surely a more gradual approach to the finalisation of the conceptual design could be followed? Similarly, the technical design needs to be structured so that it can include a high level of inputs from São Tome & Príncipe's own computer technicians. Then, implementation needs to be phased in so as to allow for mistakes to be corrected and training to be comprehensively provided. This suggests aiming for completion of conceptual and technical design during 2010 and a phased programme of introduction during 2011. We would therefore suggest that the earliest date when it would be wise to aim for a fully functional system would be 2012.
- In relation to work on the development of medium term planning, the current focus is to proceed with the development of a number of sector MTEFs. Whilst with consultancy support this could certainly be done, these initiatives would be unlikely to result in sustainable planning and budgeting processes without prior attention to some of the institutional requirements. In the first place, space needs to be created in the budget process for strategic debate and examination of different public

spending options. This will mean changing the budget calendar first and including a serious discussion of the overall Medium Term Fiscal Framework as a first step to strategic sector level discussions. Secondly, sector planning units need to be established, staffed and trained. Thirdly, budget classifications need to be updated to clarify the role and function of budget programmes. Given these considerations, we believe that phasing in sector MTEF work during 2011 and 2012 would seem an appropriate timetable.

São Tome & Príncipe has established a modern legal framework for public finance management and procurement. The next stage is now to modernise procedures, systems and routines, while also laying the groundwork for more fundamental improvements through the full computerisation of financial management (via e-SAFE) and through the introduction of medium term budgeting techniques. A careful sequencing of PFM reform actions is therefore needed. This PEFA evaluation has helped to give some indication as to where priorities lie; it now remains for Government to take its own decisions on these issues so as to produce an updated plan of action for PFM reform.

1. Introduction

1. This document comprises the Final Report of the assessment of Public Finance Management in São Tomé & Príncipe. It provides a ranking of the current status of the PFM systems and processes of the Central Government, as of September 2009, following the PEFA methodology⁵. The analysis is based upon data from the three fiscal years up to the end of the 2008 budget cycle, drawing on the accounting and audit information submitted during 2009 referring to earlier fiscal years, and – where indicated by the methodology - taking account of new practices and procedures introduced during 2009. It also includes a description of current PFM reforms, an overview of their impact to date and an assessment of likely progress in the short to medium term. The assessment has been undertaken by a team of consultants from ACE Consultants, Spain, with the close support of the staff of the Ministry of Planning & Finance, under funding from the European Commission and in close collaboration with other Development Partners – notably, the World Bank, the IMF and the Portuguese Cooperation Agency.
2. All relevant government actors have been involved from the beginning of the PEFA evaluation, and many of these participated in a half day orientation seminar on the use of the PEFA methodology, held on 4th, September 2009 in São Tomé. These actors included all the key departments of the Ministry of Planning & Finance, the Court of Accounts, the National Petroleum Agency and the ministries of Education, Foreign Affairs & Development Cooperation, Health and Transport. In addition, meetings were held with the Parliamentary Budget & Finance Committee (*2a Comissão*), with the President of the *Associação das Autarquias e Região Autónoma* (Association of Local Governments and the Autonomous Regional Government of Príncipe) and also with two representatives of the private sector, namely the Secretary General of the Chamber of Commerce, Industry, Agriculture and Services (CCIAS) and the President of the *Câmara dos Despachantes Oficiais* (Chamber of Authorised Customs Clearing Agents). A briefing and a group discussion with Development Partners was organised under the auspices of the Ministry of Foreign Affairs & Development Cooperation. (Complete lists of the persons met and of the documents consulted are presented in annex.)
3. The Coordinator of the PFM Reform Programme, Dra Joana Damiana Varela has coordinated Government's participation and input into the PEFA Assessment through the medium of a Steering Committee. This was established to manage the PEFA evaluation, and in addition to the Coordinator of the PFM Reform Programme, included the Directors of Treasury, Budget and Planning and the Inspector General of Finances. This committee met on a weekly basis during the field phase of the exercise to discuss the results generated by the consultancy team and to facilitate access to relevant information. During the week of 18-22, January 2010, the Steering Committee will organise a series of meetings between the PEFA team and the key departments of Government to discuss the results presented in this Final Report and consider its implications for the Government's PFM reform programme.
4. This final version of the Report has benefitted from comments on the draft report, provided by the Government's Steering Committee, by the European Commission, the IMF, the World Bank and the PEFA Secretariat in Washington D.C. All of the comments received have been addressed, and additional contextual and background information has also been included in chapters 2 and 3. A public workshop was held in São Tomé on 20th, January 2010 where the draft Final Report was presented and discussed. Comments received at that time have also been incorporated in this Final Report.

⁵ For details of this methodology, see the PEFA Public Finance Management Performance Measurement Framework available in 6 languages at www.pefa.org.

2. Country Background

2.1. Economic Situation

5. The Democratic Republic of São Tomé & Príncipe is a small African nation consisting of two principal islands in the Gulf of Guinea, some 250 km to the west of Gabon. It has a population estimated at 163,000 (UN, 2009) and a population density of 163 per square kilometre. Its Gross National Income (GNI) per capita is estimated by the World Bank's World Development Index as US \$ 870 per capita in 2007. In the UN's Human Development Index 2008, it ranks 131st out of a total of 182 countries. Its overall score against the index (0.651) places it above the Sub-Saharan African average of 0.516, having in relation to other Sub-Saharan African countries a relatively high life expectancy at birth (65.4 years) and a relatively high level of adult literacy (87.9 %).
6. These relatively positive statistics reflect the favourable natural environment – with fertile volcanic soils and abundant fisheries resources, the low prevalence of major infectious diseases (particularly of tuberculosis and HIV/ AIDS⁶) and the relatively long history of educational provision. On the other hand, the young structure of the population places significant strains on the ability of government to meet social needs. Although at present, São Tomé & Príncipe scores better across a range of social indicators than the averages for the Sub-Saharan African region and for low income countries as a whole, continued expansion of capital and current expenditure will be needed if these achievements are to be protected and further improvements achieved. (See Figure 2). Moreover, although recent survey-based estimates of poverty are not available, the "Profile of Poverty in São Tomé & Príncipe", published in May 2001⁷ estimated that 53.8 % of the population were below the poverty line and 15.1 % living in extreme poverty. More up-to-date proxy measures of poverty – such as estimates of formal employment, suggest that levels of poverty remain high, even if economic growth levels have risen in recent years.

Figure 2: Key Social Indicators for São Tomé & Príncipe

Social Indicators	São Tomé & Príncipe	Sub Saharan Africa	Low Income Countries
Gross National Income (GNI) per capita (US \$; 2007)	870	952	578
Most recent estimates (latest year available 2001- 07)			
Life Expectancy at birth (years)	65	51	57
Infant Mortality (per 1,000 live births)	63	94	85
Access to an improved Water source (% of population)	86	58	68
Literacy (% of population 15 +)	85	59	61
Gross Primary Enrolment (% of school age population)	127	94	94
Male	128	99	100
Female	127	88	89

Source: World Bank, *World Development Indicators 2008*

⁶ On the other hand, São Tomé and Príncipe has suffered from high levels of malaria and from periodic epidemics of cholera.

⁷ This was based on survey work undertaken over November 2000 to February 2001, with the technical support of the ILO and with funding from UNDP and AfDB.

7. São Tomé & Príncipe has historically had a very narrow production and export base, being highly reliant on earnings from cocoa and heavily dependent on aid inflows to cover its chronic Balance of Payments deficits. In recent years, a degree of restructuring of the economy has occurred, driven by three principal factors:
- Firstly, the relief provided under the HIPC debt relief initiative and the Multi-lateral Debt Relief Initiative (MDRI) permitted a major restructuring of external payment obligations, reducing the annual external debt servicing requirement from over 75 % of annual exports in 2004 to slightly over 5 % of annual exports in 2008 and 2009.
 - Secondly, the establishment of legal and institutional arrangements for the exploitation of São Tomé & Príncipe's off shore oil reserves permitted the auctioning of oil exploration rights for a number of blocks leading to "signature bonuses" to Government of US \$ 49.2 million in 2005 and \$28.6 million in 2007, with a further \$26 million expected in 2010.
 - Thirdly, there has been a related increase in levels of Foreign Direct Investment – partly to finance oil drilling operations, but also as a result of hotel and other tourism investments, stimulated by the prospect of oil-driven economic growth.
8. The relative significance of these foreign exchange inflows can be seen in Figure 3 below. They have financed an expanded level of imports and stimulated domestic demand whilst also permitting an accumulation of foreign exchange reserves. Real GDP growth reached 6.7 % in 2006, up from 4 % in 2004, and is estimated to have remained above 5 % into 2009, despite the negative impacts of the international financial crisis.

Figure 3: Economic Growth, Inflation and key sources of Foreign Exchange Inflows

	2005	2006	2007	2008
Real GDP Growth (percent)	5.7	6.7	6.0	5.8
Inflation (end of period; percent)	17.2	24.6	27.6	24.8
Oil Signature Bonuses				
US \$ millions	49.2		28.6	
Percent of GDP	42.8		21.1	
Foreign Direct Investment				
US \$ millions	6.2	41.8	24.0	59.1
Percent of GDP	5.4	33.4	17.6	33.6
Deficit on Current Account of Balance of Payments (% GDP)	-10.3	-28.8	-29.9	-34.0
Net International Reserves(in months of imports)	2.7	4.8	3.4	6.6

Source: IMF, Article IV and PRGF Consultations, 2008 and 2009

9. Notwithstanding the improved growth performance, there is an urgent need to restructure the supply side of the economy so as to maximise the domestic growth impact of foreign exchange inflows. There has been employment growth in the construction and services sectors (the latter related partly to tourism) and this may be expected to continue but the agricultural sector remains weak and domestic food production shows no sign of being able to compete with the high and rising levels of food imports. In the

absence of a robust domestic supply response, any increase in demand feeds rapidly through to increased inflation – as has been seen in recent years. The authorities were only able to bring inflation under closer control in late 2008, by accumulating foreign reserves and by permitting a 20 % appreciation of the real exchange rate. As a result of these measures, inflation fell from a peak of 37 % in June 2008 to 25 % at the end of the year. Ideally, one would want to see a lower level of sterilisation of foreign exchange flows and a bigger domestic demand stimulus but only if a stronger supply side response could be achieved – in particular through increased levels of domestic food production, would it be possible to achieve low inflation with faster GDP growth.

10. The challenge for the Saotomense Authorities is to put in place the necessary institutional and structural reforms to permit faster and more balanced growth of GDP, together with low inflation. The Government's *Grandes Opções do Plano* for 2009, adopted in October 2008 as the basis of the 2009 State Budget laid out a strategy to achieve this based around four key objectives:

- Re-establishing the confidence of the ordinary citizen in the institutions of the State;
- Reversing the historical pattern of economic and social decline;
- Creating the basic infrastructure necessary for economic growth; and
- Promoting development of human capital.

11. The State Budget for 2009 followed this strategy, allowing for increased levels of investment in infrastructure and higher levels of spending on basic services for education, health, water and sanitation, whilst reducing the fiscal deficit and maintaining a tight monetary policy aimed at further reducing inflation. If this strategy could continue to be followed over the medium term in parallel with measures to improve the climate for increased domestic investment and growth, then the economy ought to be well placed to utilise the higher revenues from oil exploitation expected in the medium to long term⁸.

2.2. Budgetary outcomes 2006 to 2008

12. Figure 4 presents a summary of the financial operations of the Central Government for the period 2006 to 2009. It is drawn from the IMF's Staff Report on São Tome & Príncipe's request for a Poverty Reduction & Growth Facility, of March 2009. The associated PRGF arrangement was subsequently agreed and the PRGF programme targets are included in the column for 2009. All other data present estimates agreed between the Authorities and the IMF.⁹

⁸ There is some uncertainty over the prospects for oil. Following the initial auction of exploration rights, drilling has been undertaken but no viable production sites have yet been found. This combined with the decline in international oil prices has reduced the pressure for auctioning of new exploration rights. On the other hand, the National Petroleum Agency is confident that oil production will start in the medium term and the private sector has expressed its confidence in the regulatory regime.

⁹ The Table is derived from a more detailed table presented in IMF (March, 2009), p.20. In reading the table, negative figures for "net arrears" correspond to a reduction in the stock of payments arrears. Similarly, negative figures for external or domestic borrowing represent loan repayments or payments to the Privatization or National Oil accounts, whereas positive figures against the financing items represent increased drawings from these bank accounts or from external or domestic credit lines.

Figure 4: Summary of Central Government Fiscal Operations 2006-2009

Budget Category	2006	2007	2008	2009
	(Percent of GDP, unless otherwise stated)			
Total Revenue & Grants	36.8	160.3	47.6.	70.7
Domestic Revenue	20.9	19.1	16.6	18.6
Of which Tax Revenue	17.2	16.3	14.7	16.7
External Grants	15.9	120.1	31.0	52.2
Project Grants	12.7	8.6	7.9	25.3
Non-project grants	0.2	1.1	3.4	0.6
HIPC related grants	3.0	110.5	19.7	26.3
Oil Signature Bonuses	0.0	21.1	0.0	0.0
Total Expenditure	50.5	39.8	31.0	62.9
Current expenditure	28.4	25.8	21.7	19.3
of which: Interest Payments	3.4	1.3	0.6	0.5
Capital expenditure	19.8	11.4	8.0	42.4
HIPC-related Social expenditure	2.3	2.6	1.4	1.2
Overall Fiscal Balance (commitments)	-13.7	120.5	16.6	7.9
Net change in Arrears	1.3	0.3	0.8	-0.7
Overall Fiscal Balance (cash basis)	-12.4	120.8	17.2	7.2
Net Financing	12.4	-120.8	-17.2	-7.2
Net External borrowing	2.0	-119.2	-18.3	-11.8
Net Domestic borrowing	10.4	-1.6.	1.1	4.6
Privatization A/c.	0.0	0.0	-11.9	1.9
National Oil Account	11.9	-3.7	1.7	1.2
Other Banking system credits	-1.5.	2.1	-0.9	0.8
Non-bank financing	0.0	0.0	12.1	0.7
Memorandum Items				-
Domestic Primary Balance	-10.7	-8.4	-6.6	-4.5
Privatization A/c balance (US\$ million)	0.0	0.0	21.0	17.0
National Oil A/c balance (US\$ million)	8.6	14.9	12.2	9.9

Source: IMF, Staff Report on the PRGF, 2009

13. The table shows major changes in the Government's asset position, deriving from three principal sources:

- Within "Total Revenue and Grants", the high amounts of HIPC related grants (amounting to over 110 % of GDP in 2007) include debt relief from the HIPC and MDRI initiatives, used to finance reductions in the stock of debt, notably through the repayment of outstanding AfDB and IDA loans. The high negative figures for net external financing correspond to these repayments.
- An oil signature bonus of US \$49.2 million (43% of GDP) was received in 2005 and a second one of US\$ 28.6 million (21% of GDP) in 2007. These payments into the National Oil Account allowed for a substantial drawdown in 2006 (largely covering the fiscal deficit of that year) and a

more modest drawdown in 2008. A balance of nearly US \$ 10 million is programmed to remain in the National Oil Account at the end of 2009.

- The proceeds of the 2008 privatization of the Government's share in the fuel distribution company (ENCO) amounted to US\$ 32 million, of which \$10 million was used to pay off ENCO's outstanding debts to Sonangol, nearly US1 million was used to audit the transaction and \$21.4 million was paid into the Central Bank. This was recorded as "non-bank financing", which permitted a payment into the privatization account (recorded as a negative level of borrowing of minus 11.9 % of GDP), from which a minor drawdown was programmed in 2009, leaving a planned balance in the privatization account of US 17 million at end 2009.
14. Prudent management of oil signature bonuses and privatization receipts, combined with careful control of current spending has allowed the authorities to reduce the domestic primary balance¹⁰ from -10.7 % of GDP in 2005 to -6.6 % in 2008, with a further fall projected in 2009 to -4.5 % of GDP. The IMF reported that there was 'good performance under the last PRGF-supported programme completed in July 2008', although they also noted that performance was weaker than programmed. In particular, the primary fiscal deficit was programmed to fall to -5.8 % of GDP in 2008, rather than the -6.6 eventually estimated. Moreover, this deficit is estimated on the basis of committed expenditures rather than on a cash basis. Taking account of the increase in payment arrears during 2008¹¹, estimated at 0.8 % of GDP, the primary fiscal deficit would have been approximately -7.4 %. This was partly caused by a shortfall in tax revenues due to the drop in trade volumes in 2008 resulting from the international financial crisis and partly by over-runs in current spending against the initially approved budget.

Figure 5: Economic classification of Central Government Spending

Budget Category	2006	2007	2008	2009 (PRGF Programme)
	(percent of GDP)			
Total Expenditure	50.5	39.8	31.0	62.9
Current Expenditure	28.4	25.8	21.7	19.3
Personnel costs	8.6	8.9	8.6	8.6
Goods & services	5.9	5.7	5.8	3.8
Transfers	7.0	7.1	5.7	5.7
Other expenditures	3.5	2.7	1.1	0.6
Interest Payments	3.4	1.3	0.6	0.5
Capital Expenditures	19.8	11.4	8.0	42.4
Internally Financed	3.3	1.1	0.5	2.8
Externally Financed	16.5	10.2	7.5	39.6
HIPC related Social expenditure	2.3	2.6	1.4	1.2

Source: IMF, Staff report on the PRGF, March 2009

¹⁰ The Domestic Primary Balance (shown within the Memorandum items) is defined as the fiscal deficit, excluding oil revenues and grants (on the revenue side) and net interest payments and externally financed investment expenditure (on the expenditure side). It thus represents the balance of the recurrent and expenditure items, which are under the direct control of the national authorities.

¹¹ For further detail on the arrears issue and the steps which the Authorities have taken to bring it under control, see the assessment of indicator PI-4 within Chapter 4.

15. Further detail on the composition of spending over the period is shown in Figure 5. The reduction in the stock of debt reduced external interest obligations from 3.4 % of GDP in 2006 to 0.6 % in 2008, thus creating additional “fiscal space”, equivalent to approximately 2.8 % of GDP. Unfortunately, the levels of non-interest current spending which had been reached by 2006 (25 % of GDP) were essentially unsustainable with a level of domestic revenue of only 20.9 % of GDP. A degree of fiscal consolidation had been achieved by end 2008, with personnel costs being contained at 8.6 % of GDP and reductions being achieved in transfers and other expenditures. However, the level of non-interest current spending (21.1% of GDP) still exceeded the level of domestic revenue collection (16.6%) by over 4 % of GDP.
16. If there was greater certainty over the volume and timing of future oil revenues, a valid argument could be made to increase current spending on social services and, by implication, to increase personnel costs to fund the recruitment of additional teachers, nurses and other medical staff. However, in the absence of a predictable flow of increased domestic revenues, Government is pursuing the prudent strategy of dedicating the windfall gains from oil signature bonuses and privatization proceeds to clearing outstanding payments arrears, building up foreign exchange reserves and funding increased investment expenditures, which might create the infrastructure for faster and more balanced growth. Continued fiscal consolidation is therefore a key theme in the new medium term fiscal programme agreed with the IMF under the PRGF.

2.3. The Structure of Government & the State Budget

17. São Tomé & Príncipe has functioned under a democratic multi-party system since 1990. The President of the Republic is elected to a 5-year term by direct universal suffrage and must gain an outright majority to be elected. The President may hold up to two consecutive terms. The Prime Minister is named by the President, with the consent of the National Assembly and after consulting with the elected representatives of the political parties and taking due account of the electoral results. The fourteen members of the Cabinet of Ministers are chosen by the Prime Minister. The National Assembly is the supreme organ of the State and the highest legislative body. It is made up of 55 members, who are elected for a four year term and meet semi-annually. Justice is administered at the highest level by the Supreme Court (*Supremo Tribunal de Justiça*) and under the Constitution the Judiciary is independent. The *Tribunal Constitucional* supervises the application of the Constitution and oversees the electoral process.
18. Current President Fradique de Menezes won a second 5-year term in the elections of July 2006, while a pro-presidential coalition was also elected in the National Assembly elections of March 2006. Local elections for the six District Assemblies (*câmaras distritais*) of São Tomé and the Special Autonomous Region (*Autarquía Especial*) of Príncipe were held in August 2006. Thus, new elections for the National Assembly and the District Assemblies are due in 2010 and for the Presidency in 2011.
19. The Government of São Tomé & Príncipe is structured into five categories of institutions:
- 7 Sovereign entities - The Presidency of the Republic, the National Assembly, the Prime Minister’s Office (*Gabinete do Primer Ministro*), the Supreme Court (*Supremo Tribunal de Justiça*) and its subordinate courts at regional and district levels, the Office of the Attorney General of the Republic (*Procurador-Geral da República*), the Court of Accounts (*Tribunal de Contas*) and the Constitutional Court (*Tribunal Constitucional*);
 - 13 Ministries;
 - 1 Regional Assembly for the Special Autonomous Region (*Autarquía Especial*) of Príncipe;

- 6 District Councils (*cámaras distritais*) in São Tomé (Água Grande, Cantagalo, Caue, Lemba, Lobata and Mezochi) and
- 8 parastatal enterprises, which operate as self-funding commercial entities – the telecommunications company (CST), the post office (*Empresa dos Correios*) the airports authority (ENASA), the ports authority (ENAPORT), the water and electricity company (EMAE), the vegetable oil company (EMOLVE – *Empresa de Óleos Vegetais*), the Monte-Café coffee company and the public bus company (*Agência de Transportes Colectivos*).

20. The Sovereign entities and the ministries comprise the Central Government, while the Special Autonomous Region of Príncipe and the six District Councils comprise the Regional and Local Governments. There exist 28 autonomous and semi-autonomous agencies within the Central Government, including notably the *Agência Nacional de Petróleo* (ANP-STP). Although some of these – such as ANP – have full operational autonomy, they receive their budgets from the Central Government via the ministries under whose tutelage they operate¹².

21. Following an extensive process of privatization over the 1980s and 1990s, the Central Government divested itself of the majority of its parastatal enterprises. In 2008, Government sold its remaining shares in the petroleum distributing agency (ENCO), and also divested itself of the majority of shares in the telecommunications company (CST).

22. The table below shows the distribution of Central Government funding between the different entities. It excludes the own revenues (*receitas consignadas*) from fees and charges collected directly by the Regional and District governments and by some of the autonomous agencies within the Central Government. It also excludes external project funding and allocations for interest payments.

Figure 6: Distribution of Central Government Spending by Type of Institution

Type of Institution	Number of Entities	Approximate Allocation of 2008 OGE
Sovereign Entities	7	8.8 %
Central Government Ministries	13	79.7 %
Special Autonomous Region of Príncipe	1	6.7 %
District Councils	6	4.8 %

Source: Ministry of Planning & Finance

23. The six District Councils of São Tomé and the Special Autonomous Region of Príncipe operate as autonomous entities with their own budgets. Transfers to these seven entities are defined under two laws that together regulate the financial regime of local government – the *Lei das Finanças Locais*, no. 16/1992 and the *Lei Quadro das Autarquias*, no. 10/2005. Under these laws, there are two instruments to transfer funds from central to sub-national governments: project funding for specific investment projects approved at the national level and the *Fundo de Equilíbrio Financeiro* (FEF) through which un-earmarked funding is transferred. This is generally utilised to cover recurrent financing needs but could in principle also cover investment funding.

24. The criteria for establishing the value of transfers under the FEF are clearly defined in law and fully transparent. They depend upon a formula, based upon geographical size, population and level of revenue collection by District/ Autarchy. The values of calculated FEF transfers are presented in the

¹² Details of the agencies and corresponding ministries are presented in *Decreto 26/2008 Orgânica do XIII Governo Constitucional*.

Executive's State Budget proposal normally approved by the National Assembly in December. FEF transfers represent more than 90% of overall transfers to districts/ autarchies. A small amount of project funding is also made available by the Central Government (some of which is externally financed) and the districts and autarchies also have some limited revenue-raising powers, based upon fees and charges.

2.4. Legal and Institutional Framework

25. The principal laws and regulations which govern the management of the State Budget are as follows:

- **The Constitution of the Republic** which specifies the respective responsibilities of the Government (the Executive) and the National Assembly (the Legislature) for the annual State Budget. It also establishes the responsibilities of the Public Administration in respect of service delivery and of citizens to pay taxes. '
- **Law 3/2007 on the System of Financial Administration of the State (*Lei sobre o Sistema de Administração Financeira do Estado*)** – commonly known as the *Lei SAFE* establishes the principles and the general rules for the formulation and execution of the budgets of administrative entities. These are applicable to the whole Public Administration and comprise rules and procedures for the organisation, formulation, presentation, discussion, approval, amendment and execution of the budget and for the formulation, presentation, discussion and approval of the annual accounts of the State Budget. It specifies the roles and modes of functioning of the five sub-components (*subsistemas*) of the SAFE system – namely, the *subsistemas* for Budget, Treasury (Tesouro Público), Public Accounting, State Assets (Património do Estado) and Internal Control.
- **The annual Budget Decree-Law:** The *Lei SAFE* specifies that after the approval of the State Budget by the National Assembly, the Government should take the necessary measures to ensure that it is executed, through the approval and publication of a corresponding annual decree-law.
- **Law no3-9/1999 (*Lei Orgânica do Tribunal de Contas*)** creates the Court of Accounts as a fully independent entity, separate from the Supreme Court (*Supremo Tribunal de Justiça*), with the responsibilities of the Supreme Audit Institution of the State.
- **Decree Law no. 56/2006** defines the mission, legal nature, scope and competencies of the Inspectorate General of Finances (*Inspecção Geral de Finanças*).
- **Law no.8/2009 (*Regulamento de Licitações e Contratações Públicas*)** approves the regulations, governing public tenders and contracts. It covers public purchases which are managed by contract either for the contracting of public works, the procurement of goods, the procurement of services, the licensing of public works or the licensing of public services. Following the directions lay out in the *Lei SAFE*, this Law confirms the direct responsibility of the ministries, departments and agencies of the State for their own procurement processes and specifies the procedures to be followed. It also establishes within the Ministry of Planning & Finance the *Gabinete de Coordenação e Seguimento do Sistema de Licitações e Contratações Públicas (COSSIL)* as the entity responsible for coordination of the procurement process, definition of operating policies, capacity development and maintenance of a procurement data base.
- **The *Lei des Finanças Locais*, no. 16/1992 and the *Lei Quadro das Autarquias*, no. 10/2005** together regulate the financial regime for regional and local government and specify the basis on

which they should receive annual transfers from the Central Government. (Details presented in section 2.3 above.)

- **The Framework Law on the Management of Petroleum Resources (*Lei Quadro da Gestão dos Recursos Petrolíferos*) of November 2004** specifies the regulatory framework for the management of exploration and exploitation rights for petroleum resources both in the Exclusive Economic Zone of São Tomé and Príncipe and in the Joint Development Zone of São Tomé and Nigeria. It ensures transparency in the management of these resources and the use of the associated revenues. It is in many ways a remarkable law, which lays out a clear and highly transparent regulatory framework, which is a model for the region.

3. Overview of PFM Reform Processes and Structures

26. This section of the report provides an overview of recent Public Finance Management (PFM) reforms in São Tomé & Príncipe and an analysis of the institutional framework which has been established for the planning and management of PFM reforms. It is based on the report of the IMF's Fiscal Affairs Department of July 2009¹³ and on the documentation on PFM reform provided by the Ministry of Planning & Finance – in particular the successive work schedules developed for the e-SAFE project, for the overall *Programa de Reformas de Gestão de Finanças Públicas* (PRGFP) and for the related technical assistance support programmes from the Portuguese Cooperation (PiCATFIN) and from the Millennium Challenge Corporation (MCC). The overview provided here is intended only as an introductory description – not as a more analytical critique of existing PFM reform processes and structures, which would require a more detailed analysis. Some comments on the strengths and weaknesses of existing systems are nevertheless made, which could potentially be explored further by other studies in the future.

3.1 Description of recent and ongoing reforms

27. The initial project design for an integrated financial management system for São Tomé & Príncipe was prepared in 2005 with the support of a World Bank-financed consultancy. This came to be known as e-SAFE and has been the driving force for many of the subsequent reform efforts. Notably, it inspired the development of the legislation for a new public financial management system - Law 3/2007 on the System of Financial Administration of the State (*Lei sobre o Sistema de Administração Financeira do Estado*) – commonly known as the *Lei SAFE*. It also stimulated the development of a more comprehensive programme of PFM reforms, known as the *Programa de Reformas de Gestão de Finanças Públicas* (PRGFP). This included components for Planning, Budgeting, Financial Programming (Cash Planning), Management of State Assets, Public Accounting, and Information Technology. The first phase of work under the PRGFP was to extend from November 2007 to March 2009 and a detailed schedule of activities for this period was developed. In parallel, a programme of reforms to tax and customs systems was developed, to which the MCC later committed their support.

28. It has not been possible for the implementation of reforms to follow the schedules originally established. This has been in large part due to the over-ambitiousness of the original plans, which under-estimated the conceptual and technical complexity of the reforms proposed while over-estimating the implementation capacity of São Tomé & Príncipe's small public service. Significant delays also arose from the initial pursuit of a software solution for e-SAFE based on the adaptation of Angola's SIGFE system, which did not in the end prove feasible. There were also a number of political changes, with the period 2006 – 2008 seeing four separate governments under Prime Ministers Mario do Carmo, Tomé Vera Cruz, Patrice Trovoada and Rafael Branco respectively. It was not until the XIIIth Constitutional Government was established with the appointment of Prime Minister Rafael Branco in June 2008 that a degree of stability was re-established and inevitably these changes had a negative influence on the implementation of PFM reforms.

29. Notwithstanding these constraints, there have been a number of important developments over the past three years:

¹³ Pessoa, M., Tollini, H. & M. Azevedo, *São Tomé & Príncipe: Improving Public Financial Management*, Fiscal Affairs Department, IMF Washington D.C.

- **The updating of the legal framework for public finance management**, notably through the drafting and approval of the *Lei SAFE* (Law 3/2007 on the System of Financial Administration of the State) and the legislation establishing an independent *Tribunal de Contas*.
 - **The drafting and approval of legislation for a modern public procurement system**, through Law no.8/2009 (Regulamento de Licitações e Contratações Públicas).
 - **The introduction of the *Safinho* system** (based on the use of an Access data-base) for integrated reporting on budget formulation and execution.
 - **The launching and award of a tender for the design and development of the e-SAFE computerised integrated financial management system.**
 - **The establishment of the Information Technology Department within the MPF** and the recruitment of staff to engage on the design and development of e-SAFE.
 - **The approval of the legal texts necessary for the creation of the Accounting Department**, within MFP.
 - **The modernisation of information systems for tax and customs.**
 - **Extensive training and capacity development across most of the key functions of the PFM system**
30. Significant progress has been made in each of these areas and they are already starting to have an impact on the quality of financial management. Nevertheless, the process of PFM reform is still in its early stages and, for the most part, the benefits of the investments made to date will not be reaped until the future. A more detailed assessment of the impact of PFM reforms in relation to each of the PEFA indicators is presented in the subsequent chapter, while in the Summary Assessment we provide a fuller overview of the overall impact and of the outstanding areas requiring attention in the short to medium term.

3.2 The Institutional Framework for PFM Reform Planning and Management

31. Since the establishment of the XIIIth Constitutional Government in June 2008, there has been a high level of Government commitment to the modernisation and strengthening of public finance management systems. The Minister of Finance and Planning, since her appointment, has given active leadership to the reforms and interacted closely with the PEFA team.
32. A Steering Committee for the PFM reform programme was created in 2008, comprised of the Directors of Planning, Budget, the Treasury, and Tax and the Inspector General of Finances. In addition, a full time national coordinator for the reform programme was nominated in early 2009. These initiatives have been important in creating a Government structure for reform coordination, marking a shift away from the almost exclusive reliance on international Technical Assistance, which had characterised the period of 2005 to 2008. Government ownership and leadership is crucial to successful PFM reform and if the current level of engagement can be sustained beyond the forthcoming elections this should help to achieve greater progress in strengthening of PFM systems.
33. However, the scope of reforms currently being pursued is extensive and complex. In particular, the development of a computerised integrated financial management system is a major challenge, which many governments around the world have found difficult to implement without making often very costly design mistakes. Neither the PFM Reform Coordinator nor any member of the Steering Committee has

any prior experience of such an undertaking. Nor do they have access to regular, independent professional advice on the development of such systems. In other technical areas – notably accounting, medium term budgeting and procurement, experience and professional knowledge is also lacking.

- 34.** The recent report of the IMF's Fiscal Affairs Department drew attention to these weaknesses and stressed the need for additional technical support. We would strongly endorse this recommendation but would also stress that the solution to this problem must seek to preserve the level of national ownership and leadership which has been achieved. A large team of international technical assistance would therefore not appear to us to be appropriate. Nevertheless, a full time resident advisor to the PFM reform coordinator is urgently needed, in addition to access to short term technical assistance in the four specific technical areas of computing/ integrated financial management systems, accounting, budgeting and procurement.

4. Assessment of Public Finance Management

4.1 Overview

39. The methodology adopted for the São Tome & Príncipe PFM assessment is available online at www.pefa.org. In addition to a comprehensive description of the methodology, the site also provides additional clarification of specific issues.
40. The PEFA methodology identifies 6 core dimensions crucial for an orderly and transparent PFM system:
- **Credibility of the budget** – the budget is realistic and is implemented as intended;
 - **Comprehensiveness and transparency** – the budget and the fiscal risk oversight are comprehensive, and fiscal and budget information is accessible to the public;
 - **Policy-based budgeting** – the budget is prepared with due regard to government policy and its implications over a medium term perspective;
 - **Predictability and control in budget execution** – the budget is implemented in an orderly and predictable manner and there are arrangements for the exercise of control and stewardship in the use of public funds;
 - **Accounting, recording and financial reporting** – adequate records and information are produced, maintained and disseminated to meet decision-making, control, management and reporting purposes;
 - **External scrutiny and audit** – legal and institutional arrangements for external scrutiny of public finances and follow up by the Executive are operating effectively.
41. Donors' practices are also measured:
- **Donors' Practices** – Donors' grants and external loans provided for the funding of government activities are budgeted and disbursed considering the predictability of funds, the allocation and effective use of those funds, and the promotion of the use of national systems and procedures.
42. The table below presents the list of the 31 indicators utilised by the PEFA methodology for the measurement of PFM performance, along with the respective scoring for São Tome & Príncipe. For each of the 31 indicators, this Chapter explains how the score was achieved, identifying both the PFM reforms and other measures implemented during 2009 that will probably impact on the quality of PFM performance.
43. The summary assessment at the beginning of this report gives an overview of overall PFM performance as of September 2009 and its implications. Annex I presents a summary table of the scores received,.

Figure 7: Summary of PFM Performance ranking, September 2009

INDICATOR		2009 Scoring
A. PFM OUT-TURNS: Credibility of the Budget		
PI-1	Aggregate expenditure out-turn compared to original approved budget	C
PI-2	Composition of expenditure out-turn compared to original approved budget	D
PI-3	Aggregate revenue out-turn compared to original approved budget	A
PI-4	Stock and monitoring of expenditure payment arrears	C+
B. KEY CROSS-CUTTING ISSUES: Comprehensiveness & Transparency		
PI-5	Classification of the Budget	B
PI-6	Comprehensiveness of information included in budget documentation	C
PI-7	Extent of unreported government operations	C
PI-8	Transparency of inter-governmental fiscal operations	A
PI-9	Oversight of aggregate fiscal risk from public sector entities	D+
PI-10	Public access to key fiscal information	C
C. BUDGET CYCLE		
C(i) Policy-Based Budgeting		
PI-11	Orderliness and participation in the annual budget process	D
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	D+
C(ii) Predictability and Control in Budget Execution		
PI-13	Transparency of tax-payers' obligations and liabilities	B
PI-14	Effectiveness of measures for tax-payer registration and tax assessment	B
PI-15	Effectiveness in collection of tax payments	D+
PI-16	Predictability in the availability of funds for commitment of expenditures	D+
PI-17	Recording and management of cash balances, debt and guarantees	D+
PI-18	Effectiveness of payroll controls	D
PI-19	Competition, value for money and controls in procurement	C+
PI-20	Effectiveness of internal controls for non-salary expenditure	D+
PI-21	Effectiveness of internal audit	D+
C(iii) Accounting, Recording and Reporting		
PI-22	Timeliness and regularity of accounts reconciliation	D
PI-23	Availability of information on resources received by service delivery units	D
PI-24	Quality and timeliness of in-year budget reports	D+
PI-25	Quality and timeliness of annual financial statements	D
C(iv) External Scrutiny and Audit		
PI-26	Scope, nature and follow-up of external audit	D+
PI-27	Legislative scrutiny of the annual budget law	D+
PI-28	Legislative scrutiny of external audit reports	D
D. DONOR PRACTICES		
D-1	Predictability of Direct Budget Support	NA
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	D
D-3	Proportion of aid that is managed by use of national procedures	D

4.2 Credibility of the Budget

21. The indicators included in this group are designed to gauge the extent to which government budgets are implemented as intended, including the extent to which arrears are allowed to accumulate. They do this by comparing actual revenues and expenditures with budgeted ones, by analysing the deviation in the actual composition of expenditure from the approved budget, and by examining the management of expenditure payment arrears.

Indicator	Dimension	2009 Assessment
PI – 1: Aggregate expenditure out-turn compared to original approved budget	The difference between actual primary expenditure and the originally budgeted primary expenditure (i.e. excluding debt service charges and externally financed project expenditure)	C

Indicator	Dimension	2009 Assessment
PI – 2: Composition of expenditure out-turn compared to original approved budget	Extent to which variance in primary expenditure composition exceeded overall deviation in primary expenditure (as defined in PI-1) during the last three years	D

Performance Assessment

Figure 8: Aggregate & Departmental Expenditures compared with Approved Budgets 2006-2008

Fiscal Year	for PI-1	Overall Expenditure Variation (summing absolute deviations for every insitution)	for PI-2
	Aggregate Expenditure deviation from Approved Budget		Variation in excess of Deviation in Aggregate Expenditure
2006	8.5%	18.6%	10.0%
2007	15.6%	35.4%	19.8%
2008	11.6%	33.3%	21.7%

Source: OGE and Financial Statements for 2006, 2007 & 2008

44. We consider indicators PI-1 and PI-2 together, as they are both based on analyses of divergences between budgeted expenditure and actual expenditure. In each case, analysis is based on primary expenditures, which include operating expenditures (*despesas funcionais*) and internally financed investment expenditures but exclude debt service charges and externally financed investment. PI-1 considers the aggregate expenditure out-turn, assessing the degree of deviation from the originally approved budget. PI-2 considers the variance in the composition of expenditure, in other words the extent to which the absolute value of reallocations between budget institutions exceeds the deviation in the aggregate budget (summing the absolute values of the positive and negative reallocations from each

institution, and subtracting the aggregate deviation¹⁴.) The table above presents the results for the last three fiscal years.

45. The percentage deviations between actual expenditure and budgeted expenditure were 8.5% in 2006, 15.6% in 2007 and 11.6% in 2008. Given that aggregate expenditure deviated from the budget estimate by more than 10% in two of the three years but by more than 15% in only one year, this merits a “C” score against indicator PI-1.
46. In each of the years here examined, the approval of the State Budget by the National Assembly was late, taking place only in March 2006, March 2007 and May 2008, respectively. (See PI-11). Following legal provisions, from January up to the month of approval of new budgets, the State Budget was executed based upon monthly ceilings of one twelfth of the aggregate ceiling approved by the National Assembly for the Budget of the previous year. This would normally generate a pattern of under-expenditure for the whole year, which is indeed the case for 2006 and 2007. However, in 2008, supplementary allocations were approved during the execution of the Budget due to higher than expected revenue collections (see PI-3), leading to a pattern of over-expenditure in relation to the initially approved Budget.
47. The variance in expenditure composition (at the level of individual ministries and agencies) exceeded overall deviation in primary expenditure (as defined and measured in PI-1) by 10% in 2006, 19.8% in 2007 and 21.7% in 2008. Thus, the variance of the composition of expenditure exceeded the overall deviation in primary expenditure by 10% or more in every one of the three years examined, as a result of which a “D” score is attributed to indicator PI-2.
48. These very high deviations mean that in São Tomé and Príncipe the budget allocations initially approved by the National Assembly bear little relationship to the level of budget resources eventually received and executed by each budget institution or agency. The Budget process is therefore relatively ineffective as a mechanism for allocating resources to priority expenditures.
49. Without more detailed diagnosis, it is difficult to identify the precise causes of these high discrepancies but it is clear that under-estimation of revenue collections is one part of the problem (PI-3). Under-budgeting of Government commitments is also clearly a contributory factor, notably the late payment (or non-payment) of budget allocations for utility charges payable to EMAE and CST.
50. We may see this effect from a careful examination of the table below showing allocations and expenditures by institution. Each institution has a budgeted allocation for utility charges but this is generally not committed and therefore not executed as an expenditure. However, ad hoc payments have been made in 2007 and 2008 towards the end of each year to cover part of these outstanding arrears. These ad hoc payments are made as ‘*encargos gerais*’ (“general charges”), which fall within the residual category (‘*restantes*’) in the table below. Thus, there is over-expenditure on ‘*restantes*’ and under expenditure against most individual institutions. To a large extent it is this which generates the high overall variation between budgets and expenditures, which results in a poor score against this indicator. The combination of accurate budgeting of utilities charges and systematic commitment, liquidation and payment of the budgeted allocations for utilities would largely serve to correct this problem.

¹⁴ The logic underlying this calculation is that of necessity any aggregate deviations of actual expenditure from approved budgets must be reflected in equivalent changes at the institutional level (because aggregate expenditure is simply the sum of expenditure by each institution). However, if greater budget cuts or budget increases have been made at the institutional level, this would reflect the need to correct inaccuracies in the originally approved budgets. In a “perfect budget” such changes would not be necessary.

Table 1: Aggregate & Departmental Expenditures compared with Approved Budgets 2006-2008

Dados para PI-1 e PI-2	2006		2007		2008	
	OE	ACTUAL	OE	ACTUAL	OE	ACTUAL
Despesas internas (funcionais e de Inv Interno)	434,011	396,920	654,816	552,603	624,795	697,421
ASSEMBLEIA NACIONAL	14,340	12,638	20,500	22,772	17,500	19,500
TRIBUNAL DE CONTAS	4,108	2,531	5,158	3,590	5,079	4,579
TRIBUNAL JUDICIAIS	7,731	5,818	8,073	6,492	9,088	7,754
PRESIDÊNCIA DA REPÚBLICA	5,583	3,742	5,470	3,934	8,543	4,494
GABINETE DO PRIMEIRO MINISTRO	4,553	2,815	4,999	2,920	7,436	5,960
PROCURADORIA GERAL DA REPÚBLICA	4,579	3,597	7,537	3,965	9,778	5,801
MINISTÉRIO DA DEFESA NACIONAL	29,218	28,178	44,197	39,093	62,571	54,964
MINISTÉRIO NECC-SERV.INTERNO	4,174	3,345	6,864	2,783	6,081	4,964
MINISTÉRIO NECC-SERV.EXTERNO	22,577	21,599	30,835	25,966	28,264	27,631
MINISTÉRIO DA JUSTIÇA...	8,022	7,379	10,359	6,984	15,323	11,539
MINISTÉRIO DO TRABALHO,FAMILIA	3,668	2,821	19,811	14,370	23,987	19,852
MINISTÉRIO DO PLANO E FINANÇAS	17,028	23,617	21,151	32,060	36,243	42,054
MINISTÉRIO DO COMÉRCIO	8,572	3,474	14,311	8,001	4,767	3,446
MINISTÉRIO DA AGRICULTURA,	4,596	3,504	0	0	11,746	10,418
MINISTÉRIO DA EDUCAÇÃO , CULTURA,	105,895	87,943	138,764	127,283	130,664	143,177
MINISTÉRIO DA ADMINISTRAÇÃO PÚBLICA	6,100	3,095	10,170	5,164	8,968	4,102
MINISTÉRIO DOS RECURSOS NATURAIS,	10,081	6,726	69,086	5,913	25,312	8,250
MINISTÉRIO DAS OBRAS PÚBLICAS	19,489	14,497	29,655	26,742	21,262	16,594
MINISTÉRIO DA SAÚDE	52,639	50,973	90,770	62,979	69,395	86,837
MINISTÉRIO DA COMUNICAÇÃO SOCIAL	3,461	2,043	6,542	3,191	8,147	3,983
GOVERNO REGIONAL DO PRÍNCIPE	14,555	8,696	36,508	29,529	42,299	36,950
CÂMARAS DISTRITAIS	5,220	4,898	26,068	19,256	26,568	26,277
RESTANTES (exc. Encargos de Dívida)	77,823	92,989	47,987	99,618	45,773	148,295
Total	434,011	396,920	654,816	552,603	624,795	697,421

Indicator	Dimension	2009 Assessment
PI – 3: Aggregate revenue out-turn compared to original approved budget.	Actual domestic revenue collection compared to domestic revenue estimates in the original, approved budget	A

Performance Assessment

51. Domestic revenue collections were equivalent to 113.9% of approved estimates in 2006, 97.6% in 2007 and 109.8% in 2008. Thus, they exceeded 97% of the domestic revenue projections approved in the budget in all of the three years under analysis, which gives an “A” score.

Figure 9: Domestic Revenue Projections and Collections

Dados para PI - 3	2006		2007		2008	
	OE	CGE	OE	CGE	OE	CGE
Receitas Internas	285,628	323,510	383,180	373,983	410,833	451,072
% Realização	113.3%		97.6%		109.8%	

Source: OGE and Financial Statements for 2006, 2007 & 2008 (Full table at annex 4)

52. Notwithstanding the fact that the PEFA methodology gives a high scoring for a revenue collection out-turn in excess of the collection target, it is questionable whether such high levels of under-estimation of revenue collections are in fact conducive to good fiscal management. Clearly, it is better for collections to exceed projections rather than to have short-falls, which might require cuts in budgetary allocations. However, when amounts equivalent to 10 % or more of domestic revenues remain regularly unprogrammed in the initially approved Budget, two types of problems may occur:

- (i) Firstly, new expenditure needs to be programmed, approved and then executed on a hurried basis during the year, meaning that expenditures may be badly planned and procurement costs unnecessarily high.
- (ii) Secondly, sector ministries, departments and agencies (as well as Ministers and National Assembly Deputies) become accustomed to new resources being made available during the year and therefore do not take the trouble to prepare complete, comprehensive and accurate budget estimates. Indeed, the high level of changes in budgetary allocations for different ministries, departments and agencies, noted under indicator PI-2, suggests a high level of inaccuracy in the budgeting process.

Indicator	Dimension	2009 Assessment	
PI – 4: Stock and monitoring of expenditure payment arrears	(i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the stock.	B	C+
	(ii) Availability of data for monitoring the stock of expenditure payment arrears.	C	

Performance Assessment

- 53.** According to national practice, arrears are defined as the difference between “liquidated” (authorised) claims and actual payments. They become payment arrears in the case of personnel expenditures when liquidated claims are unpaid after 30 days and, with regard to third party suppliers’ claims, when these are unpaid after 60 days. Following these definitions, the level of recorded payment arrears (in the *Safinho* system) declined between 2007 and 2008, representing 0.3% of total expenditure at end in 2008. However, during 2007 and 2008, the Government built up considerable payment arrears to EMAE, the national water & electricity company and to CST, the national telecommunications company, by failing to commit, liquidate or pay the amounts budgeted in each agency for such payments in spite of invoices being issued by EMAE and CST.
- 54.** The IMF estimated that domestic payment arrears had approached 118 billion Dobra by September 2008, as compared with 5 billion Dobra at end 2007. Because Government had fallen behind in its payments to EMAE, the utility company had accumulated arrears in payments due to ENCO, the fuel distributor, who in turn had accumulated tax arrears to central government of some 75 billion Dobra. In December 2008 a resolution of these crossed debts was organised in which Government cleared 86 billion Dobra of arrears to EMAE, and ENCO in turn cleared most of its tax arrears. (70 billion Dobra). In a parallel operation, the newly privatised CST cleared an outstanding loan from Government for equipment purchase, and this allowed Government to clear its arrears with CST. As a result of this substantial settlement of arrears, the level of recorded arrears at end 2008 fell to 21 billion Dobra (IMF, March 2009). This represented 2.6 % of total expenditure in 2008, meriting a “B” score against dimension (i) of this indicator.
- 55.** As we have noted above, only a small part of payment arrears are identified in detail in the fiscal reports issued by the *Safinho* system. Because no commitments or liquidations of payments due to EMAE and CST are made, these are not automatically recorded as arrears and hence accurate data on the stock of arrears is not systematically generated. However, as we note above, an ad hoc exercise to identify and clear the bulk of arrears at end 2008 was undertaken, meriting a “C” score against dimension (ii) of this indicator. The overall score for PI-4 is therefore “C+”.

Trends in 2009

- 56.** The clearance of the bulk of arrears to EMAE and CST at end 2008 clearly went a long way to alleviating the arrears problem. On the other hand, the PEFA team did not see clear evidence that administrative routines had been established for 2009 and beyond to ensure that budgetary allocations for utility payments would be systematically committed on a monthly basis and then liquidated upon the receipt of verifiable invoices from EMAE and CST. Moreover, it is not clear that budgetary allocations have been made to cover the subsidy to EMAE which is implicit in the protected rates for household usage of water and electricity, which the Government has established. Indeed, it is not clear that a precise calculation of

the annual cost of this subsidy has been made. In short, the potential for a continued build-up of utilities arrears remains high and this is an issue which ought to be addressed by Government in order to improve the credibility of the Budget, as well as the credit-worthiness of the utility companies.

4.3 Comprehensiveness and Transparency

Indicator	Dimension	2009 Assessment
PI – 5: Classification of the Budget	The classification system used for formulation, execution and reporting of the central government's budget	B

Performance Assessment

57. A comprehensive economic and administrative (organic) classification system is applied in both the formulation and execution of the budget. In addition, there is a functional classification disaggregated by functions and, in some cases by sub-functions. Neither the functional nor sub-functional breakdown are fully compliant with the GFS-COFOG¹⁵ system but they do provide a consistent breakdown by functions from 2007 onwards, which could easily be mapped onto the GFS functions. This merits a “B” score against this indicator.
58. In addition to the functional classification there is also a programmatic classification applied to the budget. This could in principle be an appropriate replacement for a sub-function classifier. However, the programme classifier is not applied in a consistent manner. Although occasionally the “programme” concept is applied correctly to unified delivery systems aiming to produce definable service delivery outcomes (such as the “Primary Education Development Programme”), in other cases it is incorrectly applied to projects which produce only outputs rather than outcomes (such as the “Primary School Construction & Rehabilitation Programme”), or simply to activities. The IMF Fiscal Affairs Department mission (IMF, July 2009) laid considerable stress on the need to correct and standardise the use of the programme concept. Until this is achieved, we do not consider that the programme concept as applied in STP should be considered an adequate substitute for sub-functional classifiers¹⁶.

Indicator	Dimension to be assessed	2009 Assessment
PI – 6: Comprehensiveness of information included in budget documentation	Typology of information in the budget documentation most recently issued by the central government	C

Performance Assessment

¹⁵ United Nations system that disaggregates the Government Classifications of Functions of Government (COFOG) by 10 functions and 69 subfunctions, which is included in the Manual of Government Financial Statistics recommended by IMF and known as the GFS (Government Financial Statistics). See details online at: <http://unstats.un.org/unsd/cr/registry/regdnld.asp?Lg=1>.

¹⁶ The FAD Mission encouraged the Authorities to consider introducing a Functional classifier fully consistent with the COFOFG system, in addition to the corresponding sub-functional classifiers from COFOG. (IMF, July 2009.)

59. The most recent budget documentation, namely the Executive’s Budget Proposal for 2009, together with the supporting documentation (*enquadramento*), included the following elements:

- Macroeconomic assumptions, including at least estimates of aggregate growth, inflation and exchange rate.
- A presentation of the fiscal deficit consistent with GFS or another internationally recognized standard.
- Summarized budget data for both revenue and expenditure according to the main heads of the classifications used (in accordance with PI-5), including data for the current (2008) and previous year (2007).

60. However, the following elements, which international good practise (and the IMF Manual on Fiscal Transparency) would normally require to be included in the annual Budget proposal, were lacking:

- A breakdown of planned Deficit financing, describing anticipated composition.
- A summary of Debt stock, including details at least for the beginning of the current year (2008 in this case).
- A statement of Financial Assets, including detailed information at least for the beginning of the current year (2008).
- The Budget out-turns for the previous year (2007), presented in the same format as the proposed 2009 Budget.
- The budget of the current year (2008) - either the revised budget or the estimated expenditure - presented in the same format as the proposed Budget.
- Explanation of budget implications of new public policy initiatives, with estimates of the budgetary impact of all major revenue/tax and customs duty changes and of major changes to expenditure programs.

61. Thus, the documentation of the Executive’s State Budget proposal for 2009, as submitted to the National Assembly, included 3 of the 9 required elements foreseen in the PEFA methodology for PI-6, which merits a “C” score.

Indicator	Dimension	2009 Assessment	
PI – 7: Extent of unreported government operations	(i) The level of extra-budgetary expenditure (other than donor-funded projects) which is unreported i.e. not included in fiscal reports.	C	C
	(ii) Income/ expenditure information on donor-funded projects which is included in fiscal reports	C	

Performance Assessment

62. With regard to domestically financed investment expenditures, no extra-budgetary expenditure has been verified. With regard to current expenditure, the principal source of extra-budgetary expenditure (other than donor-funded projects) is the direct collection of non-tax revenue by government institutions (*receitas proprias*). This includes items such as visa and passport fees at embassies, hospital charges

and the audit fees of the *Tribunal de Contas*. In most cases, neither the anticipated revenue flows from these sources nor the corresponding expenditures are included in the approved budget estimates. Until recently, nor would they be included in the financial statements of expenditure generated by the *Safinho* system.

63. With the approval and publication of Decree no. 4 of 2009, all fees received for the provision of government services are required to be deposited in the BCSTP Treasury Account, which in turn generates an accounting record of the fees received by each institution. In order to provide additional incentives for this regulation to be respected, 20% of the fees collected by government institutions may be retained to cover operating costs and a further 15% to finance salary bonus schemes. During 2009, a banking and accounting record will thus be generated of average collections by each institution which should allow both the anticipated revenues and corresponding expenditures to be budgeted from 2010 onwards. For the moment, however, these expenditures remain unbudgeted. From evidence of the levels of fees and charges being applied, we would estimate that such expenditures probably amount to more than 5% but less than 10% of total expenditure, meriting a “C” score against this dimension of the indicator.
64. In relation to the coverage of donor financed expenditure in the Budget, the Directorate of Planning (DP) reports that coverage has increased considerably in recent years both in relation to loan and grant financed projects. The IMF (July 2009) also report an increase in coverage, in part due to the specific efforts which in recent years have been made by Development Partners in this respect. For example, an inventory prepared by UNDP in May 2009 identified 107 projects, being financed by 15 donors. Most of these projects are recorded in the DP project data-base for public investments. The team were able to compare the project data in the records of the DP with those in the Budget and there is a high degree of consistency. However, data on project expenditures for grant-financed projects is not consistently captured, although there is complete information on incomes and expenditure for loan-financed projects. Thus, a “C” score is also assigned to this dimension, giving a global score of “C” for this indicator.

Indicator	Dimension	2009 Assessment	
PI – 8: Transparency of inter-governmental fiscal operations	(i) Transparent and rules based systems for the horizontal allocation among SN governments of unconditional and conditional transfers from central government.	A	A
	(ii) Timeliness of reliable information to SN governments on their allocations from central government for the coming year.	B	
	(iii) Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to sectoral categories.	A	

Performance Assessment

65. There are six District Councils (*cámaras distritais*) in São Tomé (Água Grande, Cantagalo, Caue, Lemba, Lobata and Mezochi) in addition to the *Autarquia Especial* (Special Autonomous Region) of Príncipe. Each of these is clearly identified in the administrative classification of the Budget and holds the responsibilities of a Budget Vote holder. Transfers to these seven entities are defined under two laws that together regulate the financial regime of local government – the *Lei des Finanças Locais*, no.

16/1992 and the *Lei Quadro das Autarquias*, no. 10/2005¹⁷. Under these laws, there are two instruments to transfer funds from central to sub-national governments: project funding for specific investment projects approved at the national level and funded through domestic or external donor resources and the *Fundo de Equilíbrio Financeiro* (FEF) through which un-earmarked funding is transferred, which is generally utilised to cover recurrent financing needs but could in principle also cover investment funding.

66. The criteria for establishing the value of transfers under the FEF are clearly defined in law and fully transparent. They depend upon a formula, based upon geographical size, population and level of revenue collection by District/ Autarchy. The values of calculated FEF transfers are presented in the Executive's State Budget proposal normally approved by the National Assembly in December. FEF transfers represent more than 90% of overall transfers to districts/ autarchies. Thus, an "A" score is allocated to this dimension of the indicator.
67. The team were advised by the Ministry of Planning & Finance that it was the responsibility of the *Ministério da Administração Pública*, as the '*ministério de tutela*' (ministry in charge) of the District Councils to provide advice on annual budget allocations. This formal communication generally arrives at the beginning of the fiscal year. However, the staff of the districts of Agua Grande and Cantagalo who were interviewed both confirmed (separately) that regular discussions are held with the Ministry of Planning & Finance prior to the finalisation of the Executive's Budget proposal. (In 2009, these took place in July). These discussions provide the basis for agreement on the District Councils' proposed budgetary allocations for the forthcoming fiscal year. These discussions are held during the period when the District Councils are preparing their own budgets and the information received is considered reliable, allowing for amendment of the District Council budget proposals where necessary. Accordingly, a "B" score is accorded to dimension (ii).
68. The districts/ autarchies utilise the BCSTP banking system for making payments against their budget allocations and this information is systematically recorded in the *Safinho* system and reported according to administrative and economic classifications in a consolidated manner. Until 2009, locally collected revenues were not required to be paid into the BCSTP accounts by the districts/ autarchies and would therefore not have been included in the consolidated reports of District/ Autarchy expenditure. However, the PEFA team's discussions with Agua Grande district and with the President of the District Councils' Association confirmed that expenditures financed by this source would have been no more than 5% of district expenditures. We thus conclude that the majority of District/ Autarchy expenditures (over 90%) is systematically consolidated with central government expenditure and reported through the *Safinho* fiscal reports well within 10 months of the close of the fiscal year. We therefore accord dimension (iii) an "A" score, generating an "A" score overall for PI-8.

¹⁷ It was pointed out to us that there are some inconsistencies between this legislation and the more recent "SAFE law" no. 4/2007. We were unable to verify the nature of these inconsistencies but there was no suggestion that these inconsistencies in any way altered the transparency of the formula regulating FEF transfers.

Indicator	Dimension	Assessment 2009	
PI – 9: Oversight of aggregate fiscal risk from other public sector entities	(i) Extent of central government monitoring of autonomous government agencies and public enterprises	C	D+
	(ii) Extent of central government monitoring of SN governments' fiscal position	D	

Performance Assessment

- 69.** In terms of oversight of aggregate fiscal risks, central government is required to monitor the performance of public enterprises and autonomous government agencies. Following the extensive privatization process of the 1990s, the number of public enterprises is now quite limited. These send annual financial reports to the Treasury, who brief the Minister of Finance on an enterprise by enterprise basis, without producing a consolidated report or an aggregate assessment of the overall fiscal risk. The PEFA team were unable to verify precisely how many public enterprises submit annual reports but annual reports from the largest public enterprises – EMAE and CST – were examined as well as the annual reports of the *Agência Nacional do Petróleo* (ANP – National Petroleum Agency). We thus conclude that the most important public sector entities submit annual financial reports but without a consolidated annual report or any mechanism for assessing the aggregate fiscal risk, we accord a “C” score to dimension (i).
- 70.** Neither the District Councils nor the *Autarquia Especial* of Príncipe submit consolidated annual financial reports to central government. Whilst the value and use of central government transfers through the FEF is captured directly by the *Safinho* system, there is no information on the collection and use of own revenues nor on the level of indebtedness of the Districts/ Autarchies. This constitutes a potential source of fiscal risk, because the Districts/ Autarchies have the authority to contract debt from banks, and other sources, and are only required to advise the MPF of this if a central government guarantee is required. Therefore, a “D” score is given to dimension (ii), resulting in an overall “D+” score for indicator PI-9.

Indicator	Dimension	Assessment 2009
PI – 10: Public access to key fiscal information	Typology of fiscal information which is publicly available	C

Performance Assessment

- 71.** Public access to key fiscal information is limited to only a small number of channels. The Government publishes all the documents approved by the National Assembly, including detailed tables, in the official bulletin – the *Diário da República*. The National Assembly also has a library where these documents can be consulted by the general public. Upon request, the Ministry of Planning & Finance will make available financial reports but these are not available to ordinary members of the public and the MPF’s official website was not yet operational at the time of the PEFA mission (September 2009). Thus, public access to key fiscal information is very limited.

72. Indicator PI-10 requires 6 types of information to be publicly available:

- a) Annual budget documentation: a complete set of documents should be obtainable by the public when it is submitted to the Legislature;
- b) Quarterly Budget execution reports: the reports should be made available to the public through appropriate means within one month of their completion;
- c) Year-end financial statements (such as a *Conta Geral do Estado*): Consolidated annual financial statements should be made available to the public through appropriate means within six months of completed audit.
- d) External audit reports: all reports on central government consolidated operations should be made available to the public through appropriate means within six months of completed audit;
- e) Contract awards: award of all contracts with value above approximately USD 100,000 equivalent should be published at least quarterly through appropriate means;
- f) Resources available to primary service units: information should be publicized through appropriate means at least annually, or made available upon request, for primary service units with national coverage in at least two sectors (such as elementary schools or primary health clinics).

73. Of the expected 6 elements, only one is available, namely information on the launch of tenders and the adjudication of contracts, which are publicised in the press, on the radio and on television. The National Budget (OGE) is made available to the public but only after its approval by the National Assembly, rather than at the time when the Executive's proposed Budget is submitted¹⁸. With 1 out of 6 elements available a "C" score is accorded to indicator PI-10.

Trends in 2009

74. Most of the necessary information on the fiscal and budgetary situation exists and is complete. The MPF internet site (www.minfinancas.gov.st) is expected to be operational shortly. . If a decision were taken to ensure the timely disclosure of quarterly budget reports and annual financial statements on the MPF Internet site, the gains in terms of transparency would be quite significant and would represent a significant demonstration of openness by the Government in relation to domestic and international stakeholders. Our understanding is that there would be no legal impediments to the publication of this information nor to initiating the practise of timely dissemination of the Executive's Budget Proposal [a) above] We would urge the São Tome & Príncipe authorities to take these measure in order to raise the transparency and accountability of public finances and move quickly towards international standards of fiscal transparency.

¹⁸ This is an issue on which the IMF and the international monitors of budget transparency, such as the Open Budget Index, lay considerable emphasis. The reason is that if ordinary citizens receive information on the Executive's Budget proposal then they may be in a position at least to advise their elected parliamentary representatives of their concerns prior to the finalisation of annual allocations through the approval of the Budget.

4.4 Policy-based Budgeting

Indicator	Dimension	2009 Assessment	
PI – 11: Orderliness and participation in the annual budget process	(i) Existence of and adherence to a fixed budget calendar.	D	D
	(ii) Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent).	D	
	(iii) Timely budget approval by the legislature or similarly mandated body (within the last three years).	D	

Performance Assessment

75. The process of elaboration of the State Budget is required to be completed so that the Executive's Budget proposal may be laid before the National Assembly by 30th, October and approved by 31st, December as specified in the SAFE law no. 3/2007. In addition, in 2009 the Budget Directorate (DO) issued a calendar outlining the key dates for the elaboration of the 2010 Budget, which was accompanied by a budget framework paper ('*documento de enquadramento*'), explaining the fiscal policies and key macroeconomic assumption underpinning the 2010 Budget. These are each important initiatives towards the development of an orderly and participatory budget preparation process.

76. However, there remain important shortcomings in the process which will need to be overcome if a process approaching international good practice is to be established:

- In the first place, the DO's budget calendar and related circular instruction was not issued until 8th, August 2009, only 7 weeks prior to the date of submission to the National Assembly. (A more appropriate issue date would be May or June.)
- The sector ministries were required to submit their budget proposals ('*anteprojectos orçamentais*') by 21st, August 2009, allowing only two weeks for preparation which is clearly insufficient for meaningful submissions to be made. (A period of six weeks would be the ideal but at least a minimum of 4 weeks.)
- The circular was accompanied by an explanation of the budget framework but this did not include ceilings for the preparation of budgets by each ministry, department or agency. (Ideally, it should include ceilings which have received a prior approval by the Council of Ministers.)
- The date for submission to the National Assembly specified in the SAFE law (30th, October) is inconsistent with the date specified in Parliamentary Orders (*Regimento de Assembleia Nacional, Artigo 205, No.2*), which states 15th, November as the deadline¹⁹.

¹⁹ In a legal sense, it is clear that the SAFE Law holds preference over the Parliamentary Orders but the discrepancy between the two could certainly lead to confusion and lack of clarity.

77. Thus for dimension (i) of the indicator, a “D” score is accorded. This reflects the fact that the budget calendar is not clearly specified and that the amount of time it allows ministries, departments and agencies to prepare their budgets (2 weeks) is clearly insufficient for meaningful submissions.

78. Dimension (ii) is also accorded a “D” score. This reflects the fact that although a budget preparation circular is issued, it does not include ceilings for the budget preparation process. This inevitably leads to unrealistic budget submissions which cannot be meaningfully debated. Moreover, where the Cabinet (Conselho) of Ministers is not asked to approve budget preparation ceilings which reflect a planned inter-sectoral allocation of resources, then the only moment when strategic issues of inter-sectoral resource allocations can be discussed at this level is immediately prior to the finalisation of the Executive’s proposal to the Legislature, when such discussions are inevitably rushed.

79. According to the SAFE law, which follows international good practise on this issue, the State Budget should be approved by the National Assembly by 31st, December of the year preceding the new fiscal year. However, due to the repeated changes of government there have been in recent years, only the 2009 Budget was approved prior to the start of the new fiscal year. As may be seen from the table below, in 2006, 2007 and 2008, the new State Budget was approved with a delay of two months or more, meriting a “D” score against dimension (iii) of this indicator and therefore an aggregate score of “D” for orderliness and participation in the budget preparation process.

Table 2: Dates of approval of the State Budget (OGE) by the National Assembly (2006-2009)

OGE	Government	Submission Date to National Assembly	Approval Date
2006	X – Maria do Carmo	31/01/06	03/03/06
2007	XI – Tomé Vera Cruz	11/01/07	15/03/07
2008	XI – Tomé Vera Cruz	18/12/07	<i>Proposal withdrawn by the Executive on 31/01/08</i>
2008	XII – Patrice Trovoada	09/04/08	15/05/08
*2009	XIII – Rafael Branco	31/10/08	09/12/08

* Submitted on 31/10/08, on the basis of a prior justification (of late submission) which was presented to the National Assembly and approved.

Source: Clerk of the National Assembly

Trends in 2009

80. The PEFA team were advised that the MPF anticipated that the Executive’s Budget proposal for 2010 would be submitted to the National Assembly before 30th, September 2009 and that there was every expectation that it would be approved prior to 31st, December 2009. Thus, slowly the requirements of the SAFE law are being fulfilled and more orderly routines for the budget preparation process are being established. It is strongly recommended that the MPF, in consultation with the *Conselho de Ministros*, should make efforts during 2010 to develop a new budget preparation calendar consistent with international good practise as laid out in the PEFA methodology. This should include provision for the preparation and agreement (with the *Conselho de Ministros*) of departmental ceilings to guide the budget preparation process.

Indicator	Dimension	2009 Assessment	
PI – 12: Multi-year perspective in fiscal planning, expenditure policy and budgeting	(i) Preparation of multi-year fiscal forecasts and functional allocations	D	D+
	(ii) Scope and frequency of debt sustainability analysis	A	
	(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure	D	
	(iv) Linkages between investment budgets and forward expenditure estimates	D	

Performance Assessment

81. The Government is at the early stage of development of a multi-year planning system linked to the Budget. Up to now planning has been based upon four documents:

- (i) the long term plan prepared in 1997 which has a horizon up to 2025;
- (ii) The Poverty Reduction and Growth Strategy Paper – an updated version of which was presented in September 2009 during the PEFA mission;
- (iii) The Government Programme, presented by the new (13th) Government, which laid out the programme of the current government up to the next national elections; and
- (iv) The “Major Planning Options 2009” document (*Grandes Opções do Plano 2009*), tabled before the National Assembly in October 2008 as the strategic basis of the 2009 Budget.

82. Each of these documents contains clear statements of strategic objectives. The *Grandes Opções do Plano* presents specific targets and programmes of action for the Government’s strategic objectives. However, these documents include neither any costing of proposed actions nor any serious attempt to assess the public resources likely to be available for public expenditure and to programme these expenditures over the medium term. With the preparation of a new draft Organic Law on the National Planning System, the Government now intends to move towards a more modern system in which plans would be directly linked to budgets. Specifically, the draft law envisages the creation of three planning instruments:

- A medium term national development plan, which determines the national economic and social development strategy, with stated policies, objectives, targets and budgetary programmes for a three year period;
- An annual plan presenting a three year macroeconomic framework (equivalent to a Medium Term Fiscal Framework, *Cenário Fiscal de Médio Prazo*), which would be the basis of the General State Budget (OGE); and
- A series of Medium Term Expenditure Frameworks (*Quadros de Despesas a Médio Prazo*), prepared on a sector by sector basis, outlining medium term spending plans and updated on a rolling basis each year.

83. The draft Organic Law further establishes that plans will be monitored and evaluated, with execution reports on the annual plans being tabled before the National Assembly for assessment. At the time of the PEFA mission, this draft law was under ministerial review. A related decree, specifying the role and specific responsibilities of the *Direção do Planeamento (DP)* in relation to the new planning instruments, was under internal review within MPF. Plans for the development of the necessary capacities to manage this new planning system are also under consideration..
84. At the time of writing, the MPF has not yet established the necessary internal capacity to develop a Medium Term Fiscal Framework and to update it annually as the basis for setting ceilings for the General State Budget (OGE). Annual discussions are generally held with the IMF in the context of ongoing PRGF operations and, while these do provide a medium term perspective for the budget, we would not judge that this is an adequate replacement for an internally driven medium term fiscal framework, which could be used as the basis for political discussions (and decisions) on fiscal strategy and the setting of expenditure ceilings. Accordingly, we assign a “D” score to the first dimension of this indicator.
85. With support from the IMF, a debt sustainability analysis was undertaken in 2006 as part of the HIPC process which reached completion point in March 2007. This has been subsequently repeated on an annual basis. Its coverage relates to external debt because there is no domestic debt. An “A” score is accorded to dimension (ii) of the indicator.
86. The European Commission has provided technical assistance to the DP to assist in the preparation of sectoral medium term expenditure frameworks. Over time, it is intended that MTEFs should be prepared for the agriculture, education, energy, transport and water sectors. This process was started during 2009 with a first pilot exercise to develop an MTEF for the roads sub-sector. The Ministry of Public Works, Infrastructure, Transport & Communications was directed in the DO’s budget preparation guidelines to use this document in developing its estimates for the 2010 Budget. However, to date this sub-sector is the only area of public spending where a medium term programme with a substantially complete costing of investments and recurrent expenditures has been made. With only one sub-sector fulfilling this criterion, a “D” score is assigned to dimension (iii) of the indicator.
87. Until 2006, budgeting for recurrent and investment spending occurred as separate processes, managed by DO and DP respectively. For the preparation of the 2008, 2009 and 2010 budgets, DO had sole responsibility (after prior consultation with DP and other departments of MPF) for issuing ceilings for both investment and recurrent spending. Within their investment ceilings and taking account of sector priorities laid out in the *Grandes Opções do Plano*, sectoral ministries then submitted spending proposals drawing on the listing of projects previously agreed with the DP for inclusion in the Public Investment Programme (PIP). While the unification of the budget preparation process has been a welcome development, São Tomé & Príncipe is still a long way from having an investment selection process, in which current decisions on investment are informed by the future recurrent cost requirements of projects. Until a more comprehensive set of forward budgets is developed (through the proposed sector MTEFs for example), this will not be possible. For the moment, only the roads sub-sector of transport presents projections of the future recurrent costs of planned investments. Therefore, a “D” score is also accorded to dimension (iv), giving a “D+” score for indicator PI-12.

Trends in 2009

88. As we have noted, there are important initiatives underway to create structured links between planning and budgeting processes. The unification of the recurrent and investment budgets has been an important achievement, which was rightly praised by the IMF FAD report (IMF, July 2009). The proposed new Organic Law on planning is a useful step forward, as is the associated decree on the functions and responsibilities of the DP. The preparation of a pilot MTEF for the roads sub-sector has also been

helpful both in generating a working example of an MTEF and as a learning exercise to identify some of the specific constraints to such a process in the context of São Tomé & Príncipe. However, the plans for further development of MTEFs look excessively ambitious given the institutional and human resource context.

89. At the institutional level, the approval of the draft Organic Law and related decree is required in order to establish a clear basis for further work. As recommended by the IMF FAD report, it would be helpful if the Organic Law were to be absolutely explicit on the future role of the *Grandes Opções do Plano* and the other existing planning instruments not mentioned in the draft Organic Law. One of the objectives of the Law is to simplify and harmonise the planning process: in its current formulation, it may fall short of that objective.
90. Another institutional issue to resolve is over the responsibilities for planning functions (notably the MTEF) within sector ministries. The simplest approach would be to place such responsibilities with the DAFs (*Directores de Administração Financeira*) and their existing units who hold responsibility for budgeting and financial management. Technical support could then be provided by a team of well trained planning specialists within the DP of MPF. Some sector ministries appear to be using such a model; in others, planning units are being created, which is the model favoured by the MPF given their concerns over the potential 'over-loading' of responsibilities on the DAFs. Resolution of this issue would make it easier to design an appropriate capacity building programme and then to structure a programme for phasing in sector MTEFs in line with the build-up of capacity. If such an approach is not adopted, the preparation of MTEFs will need to rely on external consultants, which is not a sustainable basis on which to develop a planning tool which by its very nature, must be updated on an annual, rolling basis.
91. In the short term, we would recommend that greater attention should be given to the development of a Medium Term Fiscal Framework, as a tool for projecting aggregate revenues and expenditures and guiding political decisions over annual investment and recurrent budget ceilings for sectors, ministries and agencies. We also concur with the recommendation of the IMF FAD report that attention should be given to the development of programme classifications, which might serve as the building blocks of sector MTEFs and of a more results-focused budget.

4.5 Predictability and Control in Budget Execution

Indicator	Dimension	Assessment 2009	
PI – 13: Transparency of Taxpayer obligations and liabilities	(i) Clarity and comprehensiveness of tax liabilities	B	B
	(ii) Taxpayer access to information on tax liabilities and administrative procedures	B	
	(iii) Existence and functioning of a tax appeal mechanism	C	

Performance Assessment

92. The legislation and the legal and administrative procedures for most taxes and customs duties are comprehensive and clear. In relation to taxes, these are laid out in the *Código Geral Tributario No. 6/2007*, as well as in the *Lei 8/2007*, outlining tax liabilities relating to inheritance and gifts, *Lei 7/2007*,

Código de procesos e procedimientos tributarios and the *Lei 7/ 2008, Código de Investimento*. The *Código de procesos e procedimientos tributarios* specifies the level of discretionary powers held by tax inspectors and other relevant authorities, while the *Código de Investimento* specifies the tax exemptions available to different categories of businesses under specific conditions.

93. With regard to Customs duties, liabilities are clearly specified in the *Código das Alfândegas* and the related *Pauta Aduaneira* (Guide to Customs Duties), which is closely based on the harmonised framework of customs duties which has been established by the WTO and introduced within the region by CEMAC (The Economic & Monetary Community of Central African States). This lays out in a detailed and systematic manner the customs duties due on all types of goods, and leaves no room for discretionality by customs officials. Customs duties are currently undergoing computerization (under the *Sydonia* system), which will promote further clarity of operations.
94. Customs and tax officials emphasised the limited legal scope for application of discretionary powers. This was confirmed to us by the Secretary General of the *Câmara de Comercio, Industria, Agricultura e Serviços* and also by the President and Vice-President of the *Câmara de Despachantes Oficiais* (the Chamber of Customs Clearing Agents), who stressed that both in law and in practise, discretionality is very limited. However, although these organisations are formal representatives of the private sector, they are both bodies with close links to the government, who might not be fully objective in their views. In the absence of sufficient time for interviews with a wider range of private sector operators, we accord a “B” to dimension (i) of the indicator, concluding that ‘legislation and procedures for most, but not necessarily all, major taxes are comprehensive and clear, with fairly limited discretionary powers of the government entities involved.’ (PEFA methodology, p.29, Indicator PI-13.)
95. All legislation on the tax system, including customs duties, is published in the *Diário da República*, the Government’s official bulletin and is also available for purchase from the Tax and Customs departments respectively. In addition, any amendments or updates to rates and duties are published on the radio and sometimes on television. The tax department occasionally runs specific tax education campaigns through radio and television. No public websites are yet available with information on tax and customs liabilities and the scope of taxpayer education campaigns is for the moment relatively limited. For these reasons, a “B” score is accorded to dimension (ii) rather than an “A” but overall the quality of information on tax liabilities and procedures is of a high standard and contributes to a high degree of transparency of the fiscal system.
96. With regard to tax, four levels of contest and appeal exist in law: i) the Director of the Tax Department; ii) the *Comité Técnico e Jurista* of the Tax Department iii) The Minister of Planning & Finance; and iv) The *Tribunal Tributário*. Unfortunately, although the *Tribunal Tributário* was created in the *Lei 7/2007, Código de procesos e procedimientos tributários*, its members have yet to be nominated so it is not yet functional.
97. With regard to Customs, there are 3 levels of appeal: i) The Director of Customs; ii) The Directorate of Customs’ technical unit (*núcleo técnico interno*); and iii) the newly established Customs Technical Council (*Conselho Técnico Aduaneiro*), which is the equivalent of a Tribunal and comprises representatives of the Directorate of Customs, the Ministry of Commerce, the *Câmara de Despachantes* and the *Câmara de Comercio* (CCIAS). Although its members have been nominated, the *Conselho Técnico Aduaneiro* has not yet met and cannot be said to be truly functional. In discussions, the *Câmara de Despachantes* emphasised that the clarity of the customs systems is such that there are very few complaints or appeals and that the vast majority of these are easily resolved at the level of the Director of Customs. Although this may certainly be true, the existence and functioning of an independent appeals body is nevertheless a crucial guarantee of the fairness of the system.

98. Until the *Tribunal Tributário* and the *Conselho Técnico Aduaneiro* are fully established and functional, we judge that that appeals mechanisms do exist and work, but that the full hierarchy of appeals mechanisms has yet to be made functional. We therefore accord a “C” score to dimension (iii). Taking together the scoring of the three dimensions results in a “B” score on transparency of taxpayer obligations and liabilities.

Indicator	Dimension	2009 Assessment	
PI – 14: Effectiveness of measures for taxpayer registration and tax assessment	(i) Controls in taxpayer registration system	B	B
	(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	C	
	(iii) Planning and monitoring of tax audit and fraud investigation programmes	B	

Performance Assessment

99. There exists a complete taxpayer database based on unique taxpayer identification numbers (NIF – *Número de Identificação Fiscal*). The tax database is separate from the customs database but there are systematic routines to ensure that information between the two is exchanged. Information for the database is also provided by the Ministry of Commerce, who are responsible for company registrations and by other public authorities running public tenders, where presentation of the NIF and of a statement of conformity with tax and customs obligations is required. In principle, it is not possible to open a bank account - individual or corporate - without a NIF, although we were advised that this rule is not strictly enforced for individuals.

100. Given that the data-base provides a complete coverage of taxpayers for all taxes and customs and that there are a variety of links to other government and commercial bank registration systems, we conclude that dimension (i) merits a “B” score. A stricter application of rules for the presentation of the NIF by individuals opening bank accounts and a more comprehensive set of links to other government registration systems would be required for an “A” score.

101. The system of penalties is defined under the tax legal codes and the deadlines for each type of tax declaration and payment are also clearly defined, as well as the corresponding amounts and their annual rates of increase. These penalties are systematically applied by the Directorate of Taxes but the notifications (*avisos*) of penalties and outstanding tax liabilities which are issued are frequently ignored. Because addresses change and are often imprecise – especially for the smaller, relatively informal companies (category “B” and “C” companies in the STP registry of businesses), it is often very difficult to collect penalties and outstanding taxes from such companies.

102. Under the customs system, fines are applied directly by the Customs Department. Because they are able to confiscate imported goods until the payment of outstanding duties and fines, the system works relatively well. Indeed, the Customs Department stated that the only organisation which is not subject to penalties for late payment of customs duties is ENCO, the national petroleum distributor, whose imported fuel cannot be withheld because of its strategic importance to the economy. ENCO is thus entitled to defer its payments of customs duties without incurring penalties.

103. Overall then, the system of penalties is generally effective with regard to customs duties but less so for tax, where adjustments to the mechanisms of administering fines will probably be required in order to give them real impact on compliance. Accordingly, a “C” score is accorded to dimension (ii) of this indicator.

104. The Directorate of Tax includes an ad hoc *Brigada de Fiscalização* composed of 8 tax inspectors who undertake an annual plan of inspections based on fiscal risk, business turnover and past fiscal behaviour. These inspections include reviews of self-assessed taxes, where inconsistencies are found in the self-assessments for different types of taxes. The Customs Directorate include an Anti-Fraud Section of 6 people, who undertake inspections based on an annual plan, derived from data on past customs declarations and payments. Thus, tax and customs inspections are undertaken according to documented inspection plans based on risk assessment criteria and include areas of self-assessed taxes. A “B” score is therefore accorded to dimension (iii), giving an overall score of “B” on taxpayer registration and tax assessment.

Indicator	Dimension	2009 Assessment	
PI – 15: Effectiveness in collection of tax payments	(i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of last 2 fiscal years).	D	D+
	(ii) Effectiveness of transfer of revenue collections to the Treasury by the revenue administration.	A	
	(iii) Frequency of complete accounts reconciliation between assessments, collections, arrears and receipts by Treasury.	B	

Performance Assessment

105. In order to assess both the efficiency and the fairness of tax collection, this indicator requires disaggregated annual data - in particular data distinguishing new and old (pre-existing) tax arrears, in order to be able to assess the average debt collection ratio within each year²⁰. The way in which the Ddl compile data on arrears makes it impossible to separate past debts from new debts without more careful analysis of individual files. Thus, it was not possible to estimate the debt collection ratio. However, it is clear that tax arrears do represent a significant problem; indeed an intractable problem because the majority of the debts is made up of relatively small amounts from “B and “C” category companies (see above) which are very difficult to collect. The view of the Ddl was that the annual collection ratio for these debts was less than 60%, meriting a “D” score against this dimension of the indicator. What is more serious for São Tomé and Príncipe is that if this poor debt collection ratio continues for too long, it will increasingly undermine levels of tax compliance and will begin to have a marked effect on the overall level of collections.

106. All customs payments and the vast majority of tax collections (97-98%) are paid directly into the Treasury account at BCSTP. The balance of 2-3 % of collections comprises more specialist taxes which

²⁰ The key point here is that relatively high levels of tax collection may still be achieved, while leaving debts uncollected. This is an undesirable practise firstly because it means that taxpayers are not being treated equally with some being allowed to retain uncollected tax liabilities, while the remainder pay their regular annual obligations. Secondly, it may generate disincentives for tax compliance because those complying with tax obligations will begin to perceive that they are not being treated fairly.

are collected directly by Ddl and then transferred to the Treasury account within 24 hours in line with an agreed protocol. Dimension (ii) thus merits an “A” score.

107. The reconciliation of the taxes collected and transferred to the Treasury with the corresponding vouchers is made on a daily basis. The full reconciliation of tax assessments, collections and payments arrears is done on a quarterly basis. Dimension (iii) was therefore accorded a “B” score. The overall score for effectiveness of tax collections is nevertheless “D+”, due to the evidently low annual debt collection ratio and the absence of adequately structured data by which to assess accurately this ratio.

Indicator	Dimension	2009 Assessment	
PI – 16: Predictability in the availability of funds for commitment of expenditures	(i) Extent to which cash flows are forecast and monitored.	D	D+
	(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment	D	
	(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs	C	

Performance Assessment

108. Predictability in the availability of funds has been assessed with reference to the procedures for cash flow forecasting and management, the mechanisms for the management of within-year treasury ceilings on expenditure and the frequency and transparency of adjustments to budget allocations made by the Ministry of Finance. The assessment has been based on fiscal year 2008, the last complete year for which data is available. We do note, however, that significant improvements in procedures have been introduced during 2009.
109. In 2008, there was no system of treasury programming and thus no mechanism of cash flow forecasting. This created difficulties for the timeliness of commitments of expenditures. Therefore, dimension (i) of this indicator merits a “D” score.
110. Thus, during 2008, Ministries, Departments and Agencies (MDA) were not provided with regular and reliable information concerning available financial resources on which they might have been able to base their planning of expenditure commitments in conformity with their approved budgets. Moreover, the systems of cash flow control adopted by the Treasury were ad hoc and not transparent to the MDAs. This situation gives dimension (ii) a “D” score.
111. Budgetary adjustments above the management level of Ministries or Departments and Agencies (*i.e.* those that change the organic classification of expenditure) are regulated by Article 35^o of Law nr. 3/2007 on the *Sistema de Administração Financeira do Estado* (Lei do SAFE, State Financial Management System), which establishes that these adjustments are the responsibility of the National Assembly. During 2008, significant budgetary adjustments occurred, both in number and amount (see analysis of indicator PI-2), in particular, during the 2nd half year. These did not occur at pre-defined times in the budget year, nor were these adjustments part of a quarterly expenditure review process based upon the budget results presented in the *Relatórios Trimestrais* (RT, Quarterly Budget Reports).

Budgetary adjustments did, however, demonstrate a certain degree of transparency as they were undertaken following a set of documented procedures, even though not all these adjustments were submitted the National Assembly for approval. Dimension (iii) of this indicator therefore merits a “C” score, giving an overall score of “D+”.

Trends in 2009

- 112.** In 2009, a comprehensive treasury plan was introduced, covering all the resources controlled by the Treasury (thus excluding loan and grant funding direct to projects/programmes which are not included in the Treasury Account at the Banco Central de São Tomé e Príncipe - *BCSTP*). On the expenditure side, it distinguishes between expenditures with known values and dates (public debt payments, payroll, public contracts, electricity, water, and transfers for local authorities, embassies and overseas student grants) and the remaining expenditures which are programmed monthly through the ‘duodecimal regime’, in which an initial ceiling for 2 twelfths of such expenditures is provided, with subsequent monthly ceilings based upon the level of expenditures acquitted.
- 113.** The 2009 treasury planning process was based upon an initial annual cash flow forecast for the fiscal year, without, at this initial stage, a disaggregation between MDAs. The Treasury Plan was subsequently updated on a monthly basis, on the basis of actual cash inflows and outflows and expenditure forecasts submitted by the MDAs, who are then given a payment ceiling for the following month. These payment ceilings are then registered in the *SAFINHO* system.
- 114.** Payment predictability has improved in relation to 2008, which would have a positive effect on the scoring of this indicator if this improved performance was to continue to the end of the fiscal year. However, further improvements are possible. For example, it would be possible to require MDAs to submit their yearly cash-flow forecasts broken down by month, and, to then use this as the basis for granting quarterly ceilings, which would determine the level of expenditure commitments, and make it possible for Treasury to guarantee that all authorised (‘liquidated’) payments would be paid on time.

Indicator	Dimension	Assessment 2009	
PI – 17: Recording and management of cash balances, debt and guarantees	(i) Quality of debt data recording and reporting	C	D+
	(ii) Extent of consolidation of the government's cash balances.	D	
	(iii) Systems for contracting loans and issuance of guarantees.	D	

Performance Assessment

- 115.** The legal framework concerning the contracting of debt has not been properly defined, lacking the definition of guidelines, criteria and indebtedness limits. The existing legislation only provides a general definition of these debt concepts in Article 42 of the *Lei do SAFE*. However, the contracting of debts and concessional loans is only allowed after prior approval by the Ministry of Planning and Finance (article 16 of *SAFE* law). The recording of public debt data is done by the Treasury through the Commonwealth Secretariat’s programme CS-DRMS v1.2. However, the system does not allow for the recording and management of loan guarantees. Records of the debts of central government are complete and up to date. A quarterly report is produced, which includes information on debt servicing, and debt operations,

but no updating of the value of the debt stock. Data on overall debt are reconciled only on a yearly basis, when a report on the stock of debt is produced. Dimension (i) was therefore accorded a “C” score: a higher score would require reports to be complete – including details of debt guarantees – and it would require a comprehensive reconciliation to take place quarterly.

116. During 2008 – the most recent complete fiscal year which can be assessed against this indicator, the MDAs had bank accounts based in commercial banks, into which Treasury transfers were received, channelled from the BCSTP. These accounts were used for the banking of revenues collected at the institutional level and for the execution of expenditure payments. In this system, the recording of the Government’s cash balances and its extent of consolidation was extremely poor, according dimension (ii) of the indicator a “D” score.
117. As we have noted above, all loans contracted by central government must receive prior approval of the Ministry of Planning & Finance. However, the issuance of guarantees is not regulated and there are no guidelines, criteria or limits for the issuance of guarantees. Moreover, the issued guarantees are not systematically monitored or properly registered, preventing a unified perspective of the system of guarantees. Dimension (iii) of the indicator is therefore accorded a “D” score, leading to an overall “D+” score.

Trends in 2009

118. From March 2009 onwards, the Ministry of Planning & Finance (MPF) established the principle of the use of a Treasury Single Account (CUT) held at the BCSTP. This created the obligation to deposit all revenue collections into the CUT account at the BCSTP and to make all expenditure payments from this one account. This decision reflects the adoption of Article 41 of the *Lei SAFE*. As a consequence, the majority of the accounts held in Commercial Banks on behalf of central government entities have been closed and the cash balances transferred to the BCSTP.
119. The Treasury has direct control of: i) the Treasury Single Account (CUT); and ii) the special accounts, where the aid resources of certain partners are deposited. The calculation of the cash balances in each of these accounts is done on a daily basis. However, the physical consolidation of the balances in the CUT and in the special accounts is not permitted by law, given that they are pre-assigned resources and/or resources denominated in foreign currency. At the time of the mission, the majority of budget operations were being managed through the CUT and special accounts, but a significant number of operations continued to be executed through Commercial Banks.
120. In order to overcome the current legal gap, at the time of the PEFA mission the MPF was finalizing a framework law to regulate the management of both public debt and public guarantees. The draft of the law defines the process of public indebtedness and monitoring, the mechanisms to disclose information to the various supervision entities as well as the roles and responsibilities of different agents. It is expected that the legislation should be approved by the end of 2009.
121. In relation to the debt management system, at the time of the PEFA mission, the debt database had been corrupted during the process of upgrading the software of the debt management CS-DRMS from version 1.2 to 1.3. Therefore, the system was temporarily not functional, with debt management being done through an Excel data base.
122. Subject to rectification of this temporary problem, the improvements in debt procedures observed during 2009, would significantly improve the scoring against this indicator. Notably, these should result in i) a better monitoring and control of public guarantees; ii) the improvement of the quality and content

of debt quarterly reports (so as to include information on the stock of debt and on guarantees); and iii) the approval of the framework law.

Indicator	Dimension	Assessment 2009	
PI – 18: Effectiveness of payroll controls	(i) Degree of integration and reconciliation between personnel records and payroll data	D	D
	(ii) Timeliness of changes to personnel records and the payroll	D	
	(iii) Internal controls of changes to personnel records and the payroll	D	
	(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers.	D	

Performance Assessment

- 123.** There is one payroll database, managed by the Directorate of the Budget (*DO*) at the Ministry of Planning and Finance, from which all salary payments for Central Government are managed. The database is disaggregated by Ministry and contains all of the information necessary for processing of the payroll data, notably, individual salary levels, tax and social security obligations and bank account details.
- 124.** Responsibility for the management of human resources rests with the National Directorate of Public Administration (DNAP). This entity does not have either a computerised or a paper-based database of Human Resources, which records all the administrative information on public servants, their career information as well as all their payroll data, and information about dependents. In the absence of such an independent personnel data-base, there is nothing against which to reconcile the information contained in the payroll database. It is therefore not possible to cross-check the accuracy of the latest payroll information. Dimension (i) is therefore accorded a “D” score.
- 125.** The delay in reconciling changes between public servants’ individual personnel records and the payroll is, in general, superior to 3 (three) months. Retroactive adjustments are therefore frequent. Thus, dimension (ii) is accorded a “D” score.
- 126.** Due to a) the absence of a personnel records database that would allow for the reconciliation of the payroll database; b) the lack of an automatic salary calculator in the payroll management programme (the payroll salary numbers are manually introduced); and c) the absence of a unique numbering system by which to identify civil servants (similar to the fiscal identification number -NIF)²¹, the level and the scope of internal controls over the payroll is very poor. Thus, dimension (iii) is also accorded a “D” score.
- 127.** Furthermore, there have been no payroll audits for three years (the last was undertaken in 2005). Therefore, dimension (iv) is also accorded a “D” score, generating an overall score of “D”.

²¹ The lack of a unique identifying code for each civil servant makes it difficult to be certain of the number of civil servants on the payroll. For example, it is common for civil servants to undertake part-time teaching roles in tertiary education institutions in addition to their normal civil service jobs. Such persons would commonly have two or even three unconsolidated payroll entries (depending on the number of institutions in which they worked).

Trends in 2009

- 128.** During 2009, a major step towards more effective payroll systems was introduced by establishing the requirement that all payroll payments should be made through the banking system. The Treasury pays salaries by crediting the current accounts of civil servants, all of whom have been required to open a bank account held in a commercial bank.
- 129.** Likewise, the DNAP is gradually reconstructing the personnel data-base by undertaking a systematic updating of records each time an adjustment is required to civil servants' files (promotion/progression/returning from leave). Development of a computerised database is expected to be undertaken through the human resources module of the forthcoming e-SAFE system.

Indicator	Dimension	Assessment 2009	
PI – 19: Competition, value for money and controls in procurement	(i) Evidence on the use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases (percentage of the number of contract awards that are above the threshold)	B	C+
	(ii) Extent of justification for use of less competitive procurement methods	C	
	(iii) Existence and operation of a procurement complaints mechanism	C	

Performance Assessment

- 130.** Our assessment is based on the data for 2008 – the most recent complete fiscal year. During 2008 (and early 2009), the legislative and regulatory framework for procurement by the State and other public entities was governed by a) the Decree-Law no. 488/71 of 19 February and the *Portaria* (Decree) no. 555/71 of 12 October, b) Order (*Decreto*) no. 341/72 of 29 August, and Order (*Decreto*) no. 7/2006 of 12 October; and c) by Chapter III of section IV of the *Código de Procedimento Administrativo* (Code of Administrative Procedures) approved by the Decree-law nr. 25/2005 of 9 March.
- 131.** According to this legal framework, the *Departamento do Património* (DP – the State Assets Department) within the Treasury Directorate was during 2008 the entity responsible for procurement. According to the information provided by DP for 2008, 51 contract awards were made (see table below), of which 10 were by direct agreement (*ajuste directo*).
- 132.** A detailed examination of the information provided shows that 64.3% (18) of the 28 awarded contracts in excess of the threshold amount for small purchase tenders were awarded through open competition²². However, the DP recognised that some contract awards for 2008 might not have been registered in their records. In the absence of comprehensive data, dimension (i) of this indicator is therefore accorded a “B” score.

²² Of the 51 contract awards registered by the DP for 2008, only 28 were above the threshold for small purchases. 18 of these – i.e. 64.3%, were awarded by open competition.

Table 3: Summary of Public Contracts awarded in 2008 by method of award

Type of Tender	Number	% of Total Awards Recorded
Open Competition	18	35.29%
Direct Agreement – <i>Ajuste directo</i> (quotations from 3 firms)*	10	19.61%
Small purchase tenders	23	45.09%
TOTAL	51	100%

Source: Departamento do Património, Direcção do Tesouro, MPF.

- 133.** The use of less competitive procurement methods (meaning Direct Agreement – *Ajuste directo*) can be justified: 1) in the case of defence and social security expenditure; 2) if the tender value is inferior to the minimum threshold for a small purchase tender; 3) in case of war or martial law; 4) in case of urgent requirements, or 5) in the case of a deserted tender, when the last open competition for the same purpose and by the same institution received no bids and cannot be repeated.
- 134.** The use of direct agreement (*ajuste directo*) was in all cases justified by reference to one or other of the causes described above. However, most of the justifications did not in fact fulfil the specified legal requirements for each of these justifications: for example purchases classified as ‘urgent’ did not in fact fulfil the due requirements for urgency. Under these circumstances, a score of “C” is given to dimension (ii) of the indicator.
- 135.** The procurement complaints and appeal mechanism is judicial, as the final option for recourse is the appeal to the Court of Accounts (*Tribunal de Contas*). However, the way the procedures for complaints and appeals are structured is not adequate and does not allow for a timely response to the appeal.
- 136.** Similarly, there are no legal requirements to oblige the disclosure and publishing of relevant information in relation to: i) the complaints submitted; ii) the content of the decisions taken about them; and iii) the decision deadlines. Therefore, there is a need both for restructuring of the complaints and appeals mechanism and for greater information on the resolution of complaints, directly accessible to the public. These weaknesses result in a “C” score for dimension (iii) and, consequently, a “C+” score overall.

Trends in 2009

- 137.** During 2009, the legal framework for procurement has been significantly modified following the approval, in March 2009, of the Decree-Law nr. 3/2009 and the Law nr. 8/2009, of 26 August 2009 that set up the new legal framework for public works contracts and acquisition of goods and services by the Government. Its scope covers Central Government entities, Public Institutes, National Agencies, Public Enterprises, Local Authorities and the Autonomous Region of Príncipe.
- 138.** The new legal regime requires that procurement should be ruled by the principles of economy, efficiency, transparency and publicity (publicising calls for tenders, the awarding of contracts and the

actual results). It defines open competition as the preferred method for all procurement, requiring that its non utilisation should be the subject of proper justification. It creates an independent entity (*COSSIL – Gabinete de Coordenação e Seguimento do Sistema de Licitações*) to regulate the process of procurement, responsible, amongst other things, for the definition of procurement policy/procedures, for an integrated management of data and information and for periodic audits of procurement processes. The law creates a non-judicial Conflict Resolution Commission under the responsibility of the Prime-Minister's Office, responsible for assessing the complaints and appeals submitted during public procurement processes.

139. Under this legal framework, the responsibility for procurement management rests with the spending ministries, through the *Unidades de Gestão de Licitações (UGL – Procurement Management Units)*. However, these units are subject to the internal auditing of COSSIL and are required to adopt standard documentation for the whole procurement process.
140. Implementation of the new legal framework will significantly improve the score against this indicator. However, reforms have been impaired by the non-appointment of the members of the Conflict Resolution Commission. Prompt appointment of this Commission will be important to consolidate the significant improvements already introduced.

Indicator	Dimension	2009 Assessment	
PI – 20: Effectiveness of internal controls for non-salary expenditure	(i) Effectiveness of expenditure commitment controls	C	D+
	(ii) Comprehensiveness, relevance and understanding of other internal control rules/procedures	D	
	(iii) Degree of compliance with rules for processing and recording transactions	C	

Performance Assessment

141. The effectiveness of non-salary expenditure commitment controls is assured by the *SAFINHO* system. It limits expenditure commitments and, consequently, their payment: i) to the value of the approved budget allocation, disaggregated by economic classification; and ii) to the duodecimal ceiling of resources made available. The *SAFINHO* sets profiles for each type of budget procedure, separating responsibilities and giving each user only the access and rights required for specific tasks within the budgetary process.
142. Nevertheless, the overall effectiveness of expenditure commitment controls is undermined by the existence of areas of expenditure executed outside of the system, without being formally committed. In particular, this is the case for expenditures on utilities to *Empresa de Água e Electricidade (EMAE)*, for water and energy consumption, and to *Companhia Santomense de Telefone (CST)* for telephone charges. (See discussion under PI-4).
143. Moreover, controls on expenditure authorization (*liquidação*) are also weakened, by the fact that many suppliers will only deliver goods to Government after payment, making impossible prior authorisation (*liquidação*) based on verification of delivery of goods or services. Thus, expenditure commitment and expenditure authorization become mere formalities rather than steps to control the

proper supply of services or delivery of goods. In practice, internal controls have been focused exclusively on cash control, rather than on control of obligations (commitments) or value for money.

144. Thus, expenditure commitment controls exist and are partially effective but they have not been comprehensively applied and have become rather formalistic rules for transactions processing and recording. As a result, dimension (i) merits a “C” score
145. Other existing norms, rules and procedures of internal control, namely in stock management and verification, are limited or nonexistent. Likewise, there are no clear rules for the identification of transactions with higher control risks and for the prevention of fraud and error. Moreover, although there is in practice some standardization of the nature, purpose and form of the interventions to be made by different types of agents in the budgetary process, ensuring a segregation of roles and thus greater transparency, this requirement is not explicitly reflected in the legislation. This dimension is therefore accorded a “D” score.
146. A set of transactions (around 15 to 20% of non-salary recurrent spending) are executed through own revenues, outside of the budget framework and without compliance with the rules for processing and recording State budget transactions. This simplified procedure is recurrent and there is no speedy regularisation process to correct it. Therefore, dimension (iii) is given a “C” score, generating an aggregate score of “D+”.

Trends in 2009

147. In 2009, the decentralization of the budget execution process was initiated through SAFINHO, covering five pilot Ministries (Ministry of Health, Office of the Attorney General, Ministry of Agriculture, Ministry of the Interior and Ministry of Planning and Finance). This decentralisation will increase the direct responsibility of spending ministries for controlling commitments and should raise the quality of expenditure commitment controls. Moreover, the combination of this process with the implementation of the Treasury Plan will improve the effectiveness of expenditure commitment controls.
148. Likewise, the Government has approved a new set of laws concerning the proper management of State assets (legislation about the management, control and alienation of Government real estate, securities and vehicles), and of the State inventory (legal instructions on the cadastre and the inventory of the State assets and on their respective classification). This legislation includes the organic law for the future Directorate for State Assets (*Direcção do Património*), which will be detached from the Treasury.
149. Under this framework, the preparation of the inventory of all the State assets – securities, real estate and vehicles- has been initiated. This process will contribute to a better control of public assets increasing the score against this indicator.

Indicator	Dimension	Assessment 2009	
PI – 21: Effectiveness of Internal Audit	(i) Coverage and quality of internal audit function	D	D+
	(ii) Frequency and distribution of reports	B	
	(iii) Extent of management response to internal audit findings	D	

Performance Assessment

- 150.** The role of internal audit is undertaken by the Inspectorate General of Finances (*IGF*) whose designated functions and organizational framework were approved by the Decree-Law nr. 56/2006, of 29 December. The *IGF* scope of intervention covers both the central government entities (Public Administrative Sector) and Public Enterprises, private entities when subject to financial or tributary relations with the State, Local Authorities and the Autonomous Region of Príncipe.
- 151.** The internal audits carried out by a staff of 19 active inspectors aim, for the most part, to control procedural and legal compliance. Thus, they evaluate to what extent an organizational unit or specific practice complies with the legal procedures and/or established best practice, making proposals for corrective measures or recommendations for further improvement. Thus, the majority of the audits do not address systemic issues relating for example to: the adequacy of the management controls required to ensure effective and efficient utilization of public resources, safeguarding of assets and the reliability of financial information. Nor do they aim to define *a priori* the indicators to monitor and the areas of risk to cover.
- 152.** In 2008, of the 12 audit reports originally planned 7 were undertaken, while 9 audits were undertaken following directives from superiors thus resulting in a total of 16 activities. However, these activities achieved only a modest coverage of less than 20% of expenditure. This low coverage and the fact that less than 20% of the interventions were focused on systemic issues therefore give dimension (i) of the indicator a “**D**” score
- 153.** Preliminary audit reports by *IGF* are initially distributed to the audited entity for comment. Subsequently, final reports are exclusively issued and distributed to the Ministry of Planning and Finance to be ratified and to the Court of Accounts (*TC*). After the ratification, the report is once again distributed to the audited entity. Thus, a score of “**B**” is given to dimension (ii) of the indicator.
- 154.** According to the Article 28 of the organic law, the *IGF* is required to monitor the degree of compliance of the recommendations ratified by the MPF and in the opinion of the *IGF* the degree of compliance with the recommendations is very low. For this reason, a score of “**D**” is given to dimension (iii) of the indicator, resulting in an overall score of “**D+**”.

Trends in 2009

- 155.** The *IGF* continues to steadily build up its technical capacity for undertaking audits with the support of the Portuguese *IGF*. In particular, under the *Programa Integrado de Cooperação e Assistência Técnica em Finanças Públicas* (*PICATFin*), an on-the-job training programme is foreseen to qualify staff

to introduce a systemic focus into audit and to develop the capability for performance audits. However, the IGF's severe human resource limitations (shortage of staff) reduce the efficiency and effectiveness of these training activities.

4.6 Accounting, recording and reporting

Indicator	Dimension	2009 Assessment	
PI – 22: Timeless regularity accounts reconciliation and of	(i) Regularity of bank reconciliations.	D	D
	(ii) Regularity of reconciliation and clearance of suspense accounts and advances	D	

Performance Assessment

- 156.** Reports on the daily movements of all Treasury managed bank accounts – the Treasury Single Account (CUT) and the special accounts – are provided on a daily basis by the BCSTP. However, full bank reconciliations - understood as the cross-checking between bank balances and accounting data held in the government's books in such a way that no material differences are left unexplained, do not take place regularly, with a frequency superior to 3 months.
- 157.** The same applies to the bank accounts from central government entities that are not managed by the Treasury – especially, accounts for externally funded projects – which are kept in Commercial Banks. The reconciliation of these accounts is not possible due to the lack of systematic information on which a reconciliation process might be based.
- 158.** In summary, the overall reconciliation of all banking accounts of central government is not possible, and although the reconciliation of Treasury-managed bank accounts should be possible, quarterly (or more frequent) reconciliations are not performed. This situation gives a “D” score to dimension (i).
- 159.** Institutions with own revenues can use up to 35% of their own revenues either as a complement of wages (15%) or for the acquisition of goods and services (20%). However, payments from this source to staff or to suppliers of goods and service are made without the correspondent expenditure being recorded in the government's books. These transactions are thus made as unregulated advances from own revenues, and are not acquitted. These circumstances result in a score of “D” to dimension (ii). The overall score of the indicator is therefore “D”.
- 160.** The introduction of a monthly (or even weekly) reconciliation procedure of the Treasury managed bank accounts based at BCSTP²³ as well as the introduction of a clearance routine for the executed expenditure paid in advance from entities' own revenues would very quickly improve the score given to this indicator.

²³ Existing statements provide information on the daily transactions of the accounts held at BCSTP and the SAFINHO provides information about government accounts.

Indicator	Dimension	2009 Assessment
PI – 23: Availability of information on resources received by service delivery units	Collection and processing of information to demonstrate the resources that were actually received (in cash and kind) by the most common front-line service delivery units (primary schools and primary health clinics), irrespective of which level of government is responsible for the operation and funding of those units.	D

Performance Assessment

- 161.** There is no information available at the centralised level for the Ministry of Planning and Finance, which is reported either in the budget documentation or in Quarterly Expenditure Reports (RT), on the resources received and the expenditures made by primary schools and health posts. Consequently, there is not the necessary information available to analyse and compare the levels of i) resources allocated to these centres, ii) transferred resources, iii) own current revenues, and iv) the degree of executed expenditure.
- 162.** The information made available by front-line service delivery units (primary schools and health posts) is quite limited due to the fact that these units are not budget holders, and as such do not constitute cost centres in an accounting sense, within the State Budget and the SAFINHO. Likewise, in the last three years no expenditure tracking survey for front-line health and education services has been implemented. Consequently, a “D” is accorded to this indicator.

Indicator	Dimension	2009 Assessment	
PI – 24: Quality & timeliness of in-year budget reports	(i) Scope of reports in terms of coverage and compatibility with budget estimates	D	D+
	(ii) Timeliness of the issue of reports	B	
	(iii) Quality of information	C	

Performance Assessment

- 163.** The SAFE Law, in Article 36, states that the Government is obliged to release information about the execution of the State budget, 30 days after the end of the relevant quarter. Following this requirement, the DT presents a quarterly report (RT) on budget execution (expenditure payments and liquidations) using the economic classification²⁴. The RT do not present the execution of expenditure and revenue per administrative entity, nor do they provide information about the original approved budget and the revised budget, integrating all the changes and re-allocations carried out during the period.
- 164.** Likewise, a comparison with the equivalent period in the previous year is not possible for all of the expenditure classifications. Moreover, RTs only report expenditure payments and liquidations, without

²⁴ The reference framework is the State financial operations table – TOFE.

reporting information about commitments. They also do not report the evolution of the stock of debt (reporting only information about the disbursements carried out in the period).

- 165.** A further reporting weakness results from the persistence of gaps in the collection and recording of expenditure data for externally funded projects which are included in the State Budget but not executed through the normal budget circuit. Due to these various weaknesses in coverage, dimension (i) of the indicator merits a “**D**” score.
- 166.** The RTs are, as a rule, released up to 6 weeks after the end of the relevant quarter, meriting a “**B**” score on the second dimension of this indicator. However, the RTs are not released beyond the Ministry of Planning and Finance, BCSTP, the National Assembly and the main Development partners, although the SAFE Law requires public disclosure in the *Diário da República*, the Government Gazette.
- 167.** The accuracy of data and the quality of RTs have shown steady improvements, which is due to the increasing use of SAFINHO as the main platform for budget execution. However, there are still some questions concerning the quality of data from the externally funded projects and other entities that execute their budget outside of SAFINHO, but these data limitations, although not mentioned in the RTs, do not compromise their integrity and usefulness. Therefore, dimension (iii) of the indicator is accorded a “**C**” score, resulting in an overall score of “**D+**”.

Trends in 2009

- 168.** Widening the decentralisation of SAFINHO to pilot Ministries could have a positive impact on the RTs’ data coverage and quality. However, based on the information already provided by this system, it would be possible to improve substantially the quality and the coverage of the RTs by including more of the information already available, namely a) data both on the original approved budget and the corrected budget, b) data on budget execution per administrative entity and functional classification; c) information on expenditure commitments; and d) information on the debt service, evolution of the stock of debt, and State guarantees. These adjustments would allow immediate improvement of the indicator score.

Indicator	Dimension	Assessment 2009	
PI – 25: Quality and timeliness of annual financial statements	(i) Completeness of the financial statements	D	D
	(ii) Timeliness of submission of the financial statements	D	
	(iii) Accounting standards used	D	

2009 Assessment

- 169.** The SAFE Law states in Section III that the Government is obliged to prepare the State General Account (CGE) annually and submit it to the *Tribunal de Contas* (TC) by 30th April in the following year, aiming “to provide evidence of the financial execution of the Budget and the use of State assets, providing a statement of the fiscal year-end results and an assessment of the performance of the central government entities” (“...evidenciar a execução orçamental, financeira e patrimonial, bem como apresentar o resultado do exercício e a avaliação do desempenho dos órgãos do poder central.”)

According to Article 214 of the *Regimento da Assembleia Nacional* (Rules of Procedure of the National Assembly) the State General Account (CGE) of the previous fiscal year should be tabled before the National Assembly, with or without the legal opinion of the TC, by the 31st December of the following year.

170. However, since the late 1990s no CGE has been tabled before the TC or the National Assembly. A “D” score is therefore accorded to all dimensions of the indicator.

Trends in 2009

171. Decree 26/2008, which approves the organic structure of the XIIIth Constitutional Government, has created in the MPF, the Directorate of Public Accounts (*Direcção de Contabilidade Pública*), which will be responsible for the public accounts, and in particular for the elaboration of the CGE. Nevertheless, this entity is not active – in part because of space constraints - and is awaiting the appointment of a Director.
172. Nevertheless, the information currently available through SAFINHO, from bank account statements, debt service data and from the information in the State Assets Department would be sufficient to provide a simplified CGE for the 2009 fiscal year. If steps could be taken to ensure a CGE was produced for 2009, this would generate a major improvement in the indicator score, and more importantly would be a powerful signal of a commitment to transparency and accountability for the citizens of São Tomé & Príncipe and for its Development Partners.

4.7 External scrutiny and Audit

Indicator	Dimension	Assessment 2009	
PI – 26: Scope, nature and follow-up of external audit	(i) Scope/nature of audit performed (incl. adherence to auditing standards)	D	D+
	(ii) Timeliness of submission of audit reports to legislature	D	
	(iii) Evidence of follow up on audit recommendations	C	

Performance Assessment

173. The Court of Accounts (*TC – Tribunal de Contas*) is the supreme audit institution of São Tomé & Príncipe. It is responsible for the jurisdictional control of budget execution, in line with the article 1 of Law nr.3/99, which creates the TC “...*The Court of Accounts is the independent supreme audit institution that controls the legality of public expenditure and rules on the accounts, which the law has ordered to be submitted to it.*” It should assess the CGE (article 16 of Law nr. 3/99) which should be submitted to the TC by the 30th April of the year following the completion of the fiscal year in question (article 61 of SAFE Law).

- 174.** The TC is composed of the President of the Court and two more Judges and by its support services. The TC, in line with its organic law, is responsible for ruling upon the accounts of autonomous services, projects, regional and local authorities, public enterprises, and companies with full or majority public capital, and for applying the corresponding financial penalties – either sanctionary or corrective. Likewise, it verifies the legality and conformity with the Budget of any act and contract from which results any revenue or expenditure for these entities, as well as undertaking audits of these entities.
- 175.** It is to these latter three competences that the TC has directed most of its attentions, considering that the CGE has not been submitted for assessment since the late 1990's. In this process, the TC only assesses technical and legal criteria, checking, specifically, the application of the principles and norms of Public Accounting, Financial Law and other legal requirements relevant to the Budget, auditing more the legality than the efficiency, effectiveness and appropriateness of expenditure. Therefore, audits have been more at transactional than at systemic level, as would normally be recommended under the INTOSAI international best practices.
- 176.** The audits carried out represent less than 50% of budgeted overall public expenditure for each year, Thus, a “**D**” score is accorded to dimension (i) of the indicator.
- 177.** The SAFE Law states the legal obligation to submit the TC's Report and Opinion of the CGE to the National Assembly by the 31st July. However, given that the CGE had not been tabled in the last years, preventing the issuance of the TC Opinion on the CGE and, consequently, producing the CGE's audit, a “**D**” score is accorded to dimension (ii) of the indicator.
- 178.** In ruling on the accounts under its jurisdiction and in carrying out its audit work, the TC, presents recommendations aimed at enforcing the relevant laws, particularly on financial matters. Audited institutions generally respond to the recommendations provided when they give their responses (contraditório) to preliminary audit reports. A formal follow-up system on audit recommendations is missing, although subsequent audits of the same entity do try to track the implementation of recommendations²⁵. Therefore, the score given to dimension (iii) of the indicator is “**C**”. The overall indicator merits a “**D+**” score.

Indicator	Dimension	2009 Assessment	
PI – 27: Legislative scrutiny of the annual budget law	(i) Scope of Legislature's (National Assembly's) scrutiny	B	D+
	(ii) Extent to which the Legislature's procedures are well-established and respected.	A	
	(iii) Adequacy of time for the Legislature to provide a response to budget proposals.	B	
	(iv) Rules for in-year amendments to the budget without ex-ante approval by the Legislature.	D	

²⁵ For example, the mission examined the follow-up audit to TVS in 2007, which assessed the degree of compliance with the earlier recommendations.

Performance Assessment

- 179.** Legislative scrutiny of the annual budget law covers the Government Plan (*Grandes Opções do Plano*), fiscal policies, the assessment of the economic situation, the specification of macroeconomic policies to be followed, the analysis of the priorities and goals of public investment policy, and the details of expenditure and revenue (as presented in the OE proposal). However, the overall fiscal framework and the medium term priorities are not analysed by the National Assembly. A score of “B” is therefore given to dimension (i).
- 180.** The procedures for legislative scrutiny are well-established. The Ministry of Planning and Finance submits the annual budget proposal to the National Assembly by the 30th September of each year. Within the Assembly, the budget proposal is distributed to parliamentary groups and political parties with parliamentary seats and to the different Parliamentary Committees.
- 181.** The 2nd Committee of the National Assembly (2^a Comissão) has the central role in analysing, revising and negotiating any changes with the Ministry of Finance, while the different Committees analyse the budget proposal, from the perspective of their specialised fields (e.g. health, education, etc), convoking, if required, the members of Government. After collecting the opinions of the different committees, the 2nd Committee prepares an opinion that is subsequently submitted to the National Assembly in plenary, when the overall budget proposal is discussed. Subsequently, the specifics of the budget proposal are discussed at the 2nd Committee, returning, afterwards, to the AN plenary for final approval.
- 182.** Therefore, the scrutiny of the annual budget law by the National Assembly is well-established and the scope and procedures are consistent with international best practices, according dimension (ii) of the indicator an “A” score.

Table 4: Information concerning OE approval by the National Assembly (2006-2009)

OE	Government	AN submission	Final approval
2006	X – Maria do Carmo	31/01/06	03/03/06
2007	XI – Tomé Vera Cruz	11/01/07	15/03/07
2008	XI – Tomé Vera Cruz	18/12/07	Removed by the proponent in 31/01/08
2008	XII – Patrice Trovoada	09/04/08	15/05/08
2009*	XIII – Rafael Branco	31/10/08	09/12/08

* Submitted on 31/10/08, on the basis of a prior justification (of late submission) which was presented to the National Assembly and approved.

Source: Office of the Clerk to the National Assembly

- 183.** The SAFE Law gives the National Assembly a period of 76 days (2.5 months) to analyse, discuss and propose amendments to the Executive’s proposed Budget before the OE approval, which should be voted by the National Assembly by the 15th December. However, recent developments show, as can be checked in the table above that, on average, the time allowed for the National Assembly is less than the

established standards, namely in the case of 2008 and 2009 OE. Therefore, dimension (iii) merits a “B” score.

- 184.** The only reference to in-year amendments to the State Budget in the SAFE Law are described in the Article 35 “ *amendments to the limits fixed by the State Budget are submitted by law after Government proposal...*”and it is “*...of the Government’s strict responsibility the redistribution of the budget allocations in accordance with the limits set at the National Assembly..*”. Therefore, any inter-ministry amendment is a National Assembly responsibility; while intra-ministry amendments are the responsibility of Government.
- 185.** Under this framework, although the rules on intra-ministry amendments are respected, the inter-ministry amendments are not always subject to the National Assembly’s scrutiny and approval.
- 186.** The law also requires that the details of budgetary execution, in particular, any inter-ministry or intra-ministry budget amendments should be communicated to the National Assembly within 30 days after the end of the quarter. However, quarterly budget amendments are not regularly reported in the current format of the RTs. Therefore, dimension (iv) of the indicator merits a “D” score, resulting in an overall score of “D+”.

Trends in 2009

- 187.** During 2009, the SAFE Law has been revised, reducing to 1 (one) month the time allowed to National Assembly to review the OE, approximating the *de facto* reality of the practice but moving against the international governance best practice.

Indicator	Dimension	Assessment 2009	
PI – 28: Legislative scrutiny of external audit reports	(i) Timeliness of examination of audit reports by the Legislature (for reports received within the last three years)	D	D
	(ii) Extent of hearings on key findings undertaken by the Legislature	D	
	(iii) Issuance of recommended actions by the Legislature and implementation by the Executive.	D	

Performance Assessment

- 22.** The legislative scrutiny of the TC Opinion on the CGE is ruled by paragraph i) of article 97 of the Constitution of the Republic, by Article 61 of the SAFE Law and the Article 214 of the *Regimento* of the National Assembly. The Constitution states that is the responsibility of the National Assembly “*...to consider the accounts of the State relative to each economic year*”.
- 188.** For that purpose, the SAFE Law states that the Government should submit to the AN the previous fiscal year’s CGE within 12 months after the end of period, complemented by the TC Report and Opinion.

189. . The approval of the CGE is ruled by subsection II of the 'Regimento da AN'. It states that "The General State Account and the reports on the Plan execution are submitted to the adequate committees for the purpose of elaboration of an opinion...aiming for the production of an opinion that would allow the approval of the CGE by the National Assembly.

190. Given that the CGEs have not been regularly tabled since the end of the 1990's, and consequently, there have been no systematic hearings in relation to the main comments presented in the TC Opinion, nor any recommendation to the Government, a default score of "D" is given to each of the three dimensions of the indicator, resulting in an overall score of "D".

4.8 Donor Practices

Indicator	Dimension	Assessment 2009	
D-1: Predictability of Direct Support of Budget	(i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the Legislature.	NA	NA
	(ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates).	NA	

Performance Assessment

191. In relation to indicator D-1, the PEFA secretariat guidelines require the existence of at least 3 (three) years of data in order for the indicator be scored. The scoring of this indicator is not possible given that only in 2008 and 2009 was budget support received from a donor – namely, from the World Bank and the Government of Taiwan.

Indicator	Dimension	2009 Assessment	
D-2: Financial information provided by donors for budgeting and reporting on projects and programmes	(i) Completeness and timeliness of budget estimates by donors for project support	D	D
	(ii) Frequency and coverage of reporting by donors on actual donor flows for project support	D	

Performance Assessment

192. The information needed for the evaluation of this indicator was requested from the representatives of the Development Partners in São Tomé & Príncipe. However, at the time of the elaboration of the Final Report, only Portugal, Taiwan, the European Commission and the UNDP have provided the required information. In principle, the PEFA guidelines require the analysis of the behaviour of at least

the 5 (five) major donors. Thus, in addition to Portugal, Taiwan and the EC, it would have been desirable to obtain information also from the World Bank and the African Development Bank so as to have information on the five largest donors to São Tomé & Príncipe, in addition to information from UNDP. Nevertheless, based on the information received and interviews held with the Planning and Budget Directorates of the Ministry of Planning & Finance, a relatively clear picture emerges on the practices employed by the principal donors with regard to reporting on planned budgets for externally financed projects:

- Most Development agencies make commitments for the full life time of the projects they are financing. These commitments are made available to the Ministry of Foreign Affairs and to the Planning Directorate.
- However, only a minority of agencies undertake annual updates of the expected budgets of their projects for the forthcoming year. Moreover, these updates are normally undertaken by the project managers and/ or the sector ministries in charge of the projects: they are not systematically transmitted to the Ministry of Planning & Finance for inclusion in the Executive's Budget proposal.
- None of the agencies providing this information transmit it following the budget classification system of the Government. They use their own donor-specific classification systems, which then need to be adapted by the Directorates of Planning and/ or Budget for inclusion in the national Budget.

193. On the basis of this information, a score of “D” is accorded to the first dimension of this indicator. This reflects the fact that none of the Development agencies submit budget estimates to the Ministry of Planning & Finance following the Government's classification system and that not even all the five major donors provide updated annual budget estimates (of any kind) at least three months prior to the start of the fiscal year.

194. In relation to the submission of information to the Ministry of Planning & Finance on actual spending by donor projects and programmes, we note that some agencies provide annual reports on actual spending, following their own classification systems but no agencies provide regular quarterly reports on spending to the Ministry of Planning and Finance. This dimension is therefore also accorded a “D”, giving a “D” score overall for this indicator.

Indicator	Dimension	Assessment 2009
D-3: Proportion of aid that is managed by use of national procedures	Overall proportion of aid funds to central government that are managed through national procedures	D

195. PEFA guidelines on the use of national procedures require that the banking, authorization, procurement, accounting, audit, disbursement and reporting arrangements for donor funds should be exactly the same as those used for government funds. At present, the only donor funds for which the full use of national procedures applies are the funds provided in recent years as Budget Support by the World Bank and the Government of Taiwan. These Budget Support allocations comprise approximately 20 % of annual donor flows. There are other Development projects and programmes, which use national procedures for some aspects of financial management. Nevertheless, taken as a whole we estimate that less than 50% of all aid funds to central government are managed through national procedures. Thus, a “D” score is accorded to this indicator.

ANNEXES

Annex 1: Summary of PEFA 2009 by Performance Indicator

Annex 2: Sources of information: a) Interviews Undertaken

Annex 3: Sources of information: a) Documents Consulted

Annex 4: Data Tables

Annex 1: Summary of PEFA 2009 by Performance Indicator

Indicator	Dimension	2009 Assessment	Overall Indicator Score
PI – 1: Aggregate expenditure out-turn compared to original approved budget	(i) The difference between actual primary expenditure and the originally budgeted primary expenditure (i.e. excluding debt service charges and externally financed project expenditure)	C	C
PI – 2: Composition of expenditure out-turn compared to original approved budget	(i) Extent to which variance in primary expenditure composition exceeded overall deviation in primary expenditure (as defined in PI-1) during the last three years	D	D
PI – 3: Aggregate revenue out-turn compared to original approved budget.	(i) Actual domestic revenue collection compared to domestic revenue estimates in the original, approved budget	A	A
PI – 4: Stock and monitoring of expenditure payment arrears	(i) Stock of expenditure payment arrears (as a percentage of actual total expenditure for the corresponding fiscal year) and any recent change in the stock.	B	C+
	(ii) Availability of data for monitoring the stock of expenditure payment arrears.	C	
PI – 5: Classification of the Budget	The classification system used for formulation, execution and reporting of the central government's budget	B	B
PI – 6: Comprehensiveness of information included in budget documentation	Typology of information in the budget documentation most recently issued by the central government	C	C
PI – 7: Extent of unreported government operations	(i) The level of extra-budgetary expenditure (other than donor-funded projects) which is unreported i.e. not included in fiscal reports.	C	C
	(ii) Income/ expenditure information on donor-funded projects which is included in fiscal reports	C	
PI – 8: Transparency of inter-	(i) Transparent and rules based systems for the horizontal	A	A

Indicator	Dimension	2009 Assessment	Overall Indicator Score
governmental fiscal operations	government.		
	(ii) Timeliness of reliable information to SN governments on their allocations from central government for the coming year.	A	
	(iii) Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to sectoral categories.	A	
PI – 9: Oversight of aggregate fiscal risk from other public sector entities	(i) Extent of central government monitoring of autonomous government agencies and public enterprises	C	D+
	(ii) Extent of central government monitoring of SN governments' fiscal position	D	
PI – 10: Public access to key fiscal information	Typology of fiscal information which is publicly available	C	C
PI – 11: Orderliness and participation in the annual budget process	(i) Existence of and adherence to a fixed budget calendar.	D	D
	(ii) Clarity/comprehensiveness of and political involvement in the guidance on the preparation of budget submissions (budget circular or equivalent).	D	
	(iii) Timely budget approval by the legislature or similarly mandated body (within the last three years).	D	
PI – 12: Multi-year perspective in fiscal planning, expenditure policy and budgeting	(i) Preparation of multi-year fiscal forecasts and functional allocations	D	D+
	(ii) Scope and frequency of debt sustainability analysis	A	
	(iii) Existence of sector strategies with multi-year costing of recurrent and investment expenditure	D	
	(iv) Linkages between investment budgets and forward expenditure estimates	D	
PI – 13:	(i) Clarity and comprehensiveness of tax liabilities	B	B

Indicator	Dimension	2009 Assessment	Overall Indicator Score
Transparency of Taxpayer obligations and liabilities	(ii) Taxpayer access to information on tax liabilities and administrative procedures	B	
	(iii) Existence and functioning of a tax appeal mechanism	C	
PI – 14: Effectiveness of measures for taxpayer registration and tax assessment	(i) Controls in taxpayer registration system	B	B
	(ii) Effectiveness of penalties for non-compliance with registration and declaration obligations	C	
	(iii) Planning and monitoring of tax audit and fraud investigation programmes	B	
PI – 15: Effectiveness in collection of tax payments	(i) Collection ratio for gross tax arrears, being the percentage of tax arrears at the beginning of a fiscal year, which was collected during that fiscal year (average of the last two fiscal years).	D	D+
	(ii) Effectiveness of transfer of revenue collections to the Treasury by the revenue administration.	A	
	(iii) Frequency of complete accounts reconciliation between assessments, collections, arrears and receipts by Treasury.	B	
PI – 16: Predictability in the availability of funds for commitment of expenditures	(i) Extent to which cash flows are forecast and monitored.	D	D+
	(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure commitment	D	
	(iii) Frequency and transparency of adjustments to budget allocations, which are decided above the level of management of MDAs	C	
PI – 17: Recording and management of cash balances, debt and guarantees	(i) Quality of debt data recording and reporting	C	D+
	(ii) Extent of consolidation of the government's cash balances.	D	
	(iii) Systems for contracting loans and issuance of guarantees.	D	
PI – 18: Effectiveness of payroll controls	(i) Degree of integration and reconciliation between personnel records and payroll data	D	D
	(ii) Timeliness of changes to personnel records and the payroll	D	

Indicator	Dimension	2009 Assessment	Overall Indicator Score
	(iii) Internal controls of changes to personnel records and the payroll	D	
	(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers.	D	
PI – 19: Competition, value for money and controls in procurement	(i) Evidence on the use of open competition for award of contracts that exceed the nationally established monetary threshold for small purchases (percentage of the number of contract awards that are above the threshold)	B	C+
	(ii) Extent of justification for use of less competitive procurement methods	C	
	(iii) Existence and operation of a procurement complaints mechanism	C	
PI – 20: Effectiveness of internal controls for non-salary expenditure	(i) Effectiveness of expenditure commitment controls	C	D+
	(ii) Comprehensiveness, relevance and understanding of other internal control rules/procedures	D	
	(iii) Degree of compliance with rules for processing and recording transactions.	C	
PI – 21: Effectiveness of Internal Audit	(i) Coverage and quality of internal audit function	D	D+
	(ii) Frequency and distribution of reports	B	
	(iii) Extent of management response to internal audit findings	D	
PI – 22: Timeless and regularity of accounts reconciliation	(i) Regularity of bank reconciliations.	D	D
	(ii) Regularity of reconciliation and clearance of suspense accounts and advances	D	
PI – 23: Availability of information on resources received by service delivery units	Collection and processing of information on the resources actually received (in cash and kind) by the most common front-line service delivery units (primary schools and primary health clinics).	D	D
PI – 24: Quality & timeliness of in-year	(i) Scope of reports in terms of coverage and compatibility with budget estimates	D	D+

Indicator	Dimension	2009 Assessment	Overall Indicator Score
budget reports	(ii) Timeliness of the issue of reports	B	
	(iii) Quality of information	C	
PI – 25: Quality and timeliness of annual financial statements	(i) Completeness of the financial statements	D	D
	(ii) Timeliness of submission of the financial statements	D	
	(iii) Accounting standards used	D	
PI – 26: Scope, nature and follow-up of external audit	(i) Scope/nature of audit performed (incl. adherence to auditing standards)	D	D+
	(ii) Timeliness of submission of audit reports to legislature	D	
	(iii) Evidence of follow up on audit recommendations	C	
PI – 27: Legislative scrutiny of the annual budget law	(i) Scope of Legislature's scrutiny	B	D+
	(ii) Extent to which the legislature's procedures are well-established and respected.	A	
	(iii) Adequacy of time for the legislature to provide a response to budget proposals.	B	
	(iv) Rules for in-year amendments to the budget without ex-ante approval by the Legislature.	D	
PI – 28: Legislative scrutiny of external audit reports	(i) Timeliness of examination of audit reports by the Legislature (for reports received within the last three years)	D	D
	(ii) Extent of hearings on key findings undertaken by the Legislature	D	
	(iii) Issuance of recommended actions by the Legislature and implementation by the Executive.	D	
D-1: Predictability of Direct Budget Support	(i) Annual deviation of actual budget support from the forecast provided by the donor agencies at least six weeks prior to the government submitting its budget proposals to the Legislature.		NOT APPLICABLE
	(ii) In-year timeliness of donor disbursements (compliance with aggregate quarterly estimates).		

Indicator	Dimension	2009 Assessment	Overall Indicator Score
D-2: Financial information provided by donors for budgeting and reporting on projects and programmes	(i) Completeness and timeliness of budget estimates by donors for project support	D	D
	(ii) Frequency and coverage of reporting by donors on actual donor flows for project support	D	
D-3: Proportion of aid that is managed by use of national procedures	Overall proportion of aid funds to central government that are managed through national procedures	D	D

Annex 2: Sources of information: a) Interviews Undertaken

Institution	Name
Ministério das Finanças	PMAFE
	Joana Damiana Kelpton Neto
	DO
	Américo Ramos Olímpia Santos Ginésio da Mata Leyla Pires dos Santos Isac Will
	DP
	Filipe Moniz Geisel Menezes Gaspar Pinto Vaz Abdul Afonso Barros Gareth Guadalupe
	DT
	Ana Maria Silveira Justino Mota Hilário Paiva Leopoldo Rita Carlos Alberto Costa Maria dos Santos Tebus Torres Carlos Costa Belmiro Costa
	DI
	Diallo Santos Alda Daio
	DA
	Albertino Sousa Batista de Sousa Carlos Emanuel Benguela
	IGF
	Raul Viana Sara Santos
	COSSIL
	Joe Oliveira Trindade
	DTI
	Edson Sandelsydia Nunes

Institution	Name
Assembleia Nacional	2ª Comissão
	Alcino Pinto
	Cosme Rita
	Júlio Smith Lima
	Octávio Soares da Costa
	Tomé Soares da Vera Cruz
	Basílio Diogo
	Serviço de Apoio
	Dilson Tiny
	Brigitt Nascimento
	Iara Beirão
Ministério da Saúde	DAF
	Anastácio de Menezes
	Elsa Brito
Ministério da Agricultura	DAF
	Manuel do Sacramento L. de Sousa
Banco de Central de STP	BCSTP
	Maria Piedade Santos Daio
	Antónia Fernandes Santana
	Massari Lima Fernandes
	Lara Beirão
Ministério dos Negócios Estrangeiros	GON FED
	Carlos Trigueiros
	Luís Viegas
Ministério da Administração Pública	DNAP
	Ernestina Menezes Neves
Ministério das Obras Públicas	DAF
	José Luís Tavares
	Charles Género pereira Fonseca Neto
Ministério da Educação	DAF
	Martinho dos Santos
	Vasco Gonçalves
	Faquit Rosa Vaz Campos
CCIAS	Cosme Bonfim Afonso Rita
TRIBUNAL DE CONTAS	SECRETARIA
	Bernardino Araújo
	Artur Vera Cruz
	Quintino Nascimento

Institution	Name
Câmara Distrital de Água Grande	Regina Nascimento
COOP. PORTUGUESA	Luis Saramago

Annex 3: Sources of information: a) Documents Consulted

Indicator	Document	Source
PI – 16: Previsibilidade da disponibilidade de fundos para compromissos de despesas	Plano de Tesouraria 2009, Lei do SAFE, relatórios do SAFINHO, Entrevista à DT, MS, MA, ME e MOP , análise dos dados do SAFINHO	DT, DO DP, MS, MA, ME e MOP
PI – 17: Registo e gestão dos balanços de caixa, dívidas e garantias	Relatório de execução da dívida de 2008, Relatório da dívida do 1º trimestre 2009, Lei do SAFE, Balanço Consolidado dos Bancos Comerciais, Balanço do sistema Monetário, Entrevista com DT, BCSTP, ME, MA e MOP	DT, BCSTP, ME, MA e MOP
PI – 18: Eficácia do controlo das folhas de salários	Observação das funcionalidades da Base de dados de salários; entrevista com a DNAPública; entrevista com técnicos do sector de salários do DO; DT, DAF's do MS, MOP, ME	DO, DT, BCSTP, ME, MA e MOP
PI – 19: Competição, value-for-money e controlo no processo de aprovisionamento (procurement)	Lei do SAFE, Decreto 37/2006, Decreto-Lei 3/2009, Lei 8/2009, entrevistas com COSSIL, DT - Departamento de Património, entrevistas com DAF's do MS, MOP, ME	COSSIL, MS, ME MOP, CCIAS, DT
PI – 20: Eficácia dos controlos internos para despesas não salariais	Lei do SAFE, entrevistas com DAF's do ME, MA, MOP, MS, entrevistas com DO, DT e IGF, TC, análise do sistema SAFINHO	DO, DT, MA, MOP, MS, IGF e TC
PI – 21: Eficácia da auditoria interna	Plano e Relatórios de actividade da IGF, Relatórios da IGF	IGF, TC, DAF'S ME e MS
PI – 22: Pontualidade e regularidade na reconciliação de contas	Entrevistas com DT, BCSTP; relatórios de execução do tesouro (trimestral e anual), entrevista com MS e ME	DT, BCSTP, MS, ME
PI – 23: Disponibilidade de informação de recursos recebidos pelas unidades de prestação de serviços	Lei do Orçamento, entrevista com DAF's do MS e ME; DO	MS, ME, DO
PI – 24: Qualidade e pontualidade dos relatórios orçamentais durante o ano	Relatórios de execução da DT, da DP 2008 (1º e 2º trimestre); entrevistas com a DT, DO e DP	DT, DP, DO
PI – 25: Qualidade e pontualidade dos relatórios financeiros anuais	Entrevistas com DO, DT, DP, TC, 2ª Comissão do Parlamento, IGF	DO, DT, DP, TC, 2ª Comissão, IGF
PI – 26: Âmbito, natureza e acompanhamento da auditoria	Entrevista com o TC e Relatórios de Actividades do TC;	TC

Indicator	Document	Source
externa		
PI – 27: Exame parlamentar da lei orçamental anual	Entrevista com 2ª Comissão, CCIAS, Regimento Interno do Parlamento; Lei do SAFE, análise dos dados de execução orçamental 2008 e nº de alterações orçamentais inter-departamentais	AN, DO, CCIAS
PI – 28: Exame parlamentar dos relatórios de auditoria externa	Entrevista com 2ª Comissão, Regimento Interno do Parlamento; Lei do SAFE	AN, TC
D-1: Previsibilidade do Apoio Directo ao Orçamento	Relatórios de execução da DT	DO, DT
D-2: Informação financeira prestada pelos doadores para a orçamentação e reporte do apoio a projectos e programas		PNUD, Portugal, CE, Taiwan
D-3: Proporção da ajuda que é gerida de acordo com procedimentos nacionais		PNUD, Portugal, CE, Taiwan

Annex 4: Data Tables

Table 1: Indicator PI-1: Approved Budgets and Expenditures 2006, 2007 & 2008, excluding Interest payments & Externally funded Investment Projects

Dados para PI-1 e PI-2	2006		2007		2008	
	OE	ACTUAL	OE	ACTUAL	OE	ACTUAL
Despesas internas (funcionais e de Inv Interno)	434,011	396,920	654,816	552,603	624,795	697,421
ASSEMBLEIA NACIONAL	14,340	12,638	20,500	22,772	17,500	19,500
TRIBUNAL DE CONTAS	4,108	2,531	5,158	3,590	5,079	4,579
TRIBUNAL JUDICIAIS	7,731	5,818	8,073	6,492	9,088	7,754
PRESIDÊNCIA DA REPÚBLICA	5,583	3,742	5,470	3,934	8,543	4,494
GABINETE DO PRIMEIRO MINISTRO	4,553	2,815	4,999	2,920	7,436	5,960
PROCURADORIA GERAL DA REPÚBLICA	4,579	3,597	7,537	3,965	9,778	5,801
MINISTÉRIO DA DEFESA NACIONAL	29,218	28,178	44,197	39,093	62,571	54,964
MINISTÉRIO NECC-SERV.INTERNO	4,174	3,345	6,864	2,783	6,081	4,964
MINISTÉRIO NECC-SERV.EXTERNO	22,577	21,599	30,835	25,966	28,264	27,631
MINISTÉRIO DA JUSTIÇA...	8,022	7,379	10,359	6,984	15,323	11,539
MINISTÉRIO DO TRABALHO,FAMILIA	3,668	2,821	19,811	14,370	23,987	19,852
MINISTÉRIO DO PLANO E FINANÇAS	17,028	23,617	21,151	32,060	36,243	42,054
MINISTÉRIO DO COMÉRCIO	8,572	3,474	14,311	8,001	4,767	3,446
MINISTÉRIO DA AGRICULTURA,	4,596	3,504	0	0	11,746	10,418
MINISTÉRIO DA EDUCAÇÃO , CULTURA,	105,895	87,943	138,764	127,283	130,664	143,177
MINISTÉRIO DA ADMINISTRAÇÃO PÚBLICA	6,100	3,095	10,170	5,164	8,968	4,102
MINISTÉRIO DOS RECURSOS NATURAIS,	10,081	6,726	69,086	5,913	25,312	8,250
MINISTÉRIO DAS OBRAS PÚBLICAS	19,489	14,497	29,655	26,742	21,262	16,594
MINISTÉRIO DA SAÚDE	52,639	50,973	90,770	62,979	69,395	86,837
MINISTÉRIO DA COMUNICAÇÃO SOCIAL	3,461	2,043	6,542	3,191	8,147	3,983
GOVERNO REGIONAL DO PRÍNCIPE	14,555	8,696	36,508	29,529	42,299	36,950
CÂMARAS DISTRITAIS	5,220	4,898	26,068	19,256	26,568	26,277
RESTANTES (exc. Encargos de Dívida)	77,823	92,989	47,987	99,618	45,773	148,295
Total	434,011	396,920	654,816	552,603	624,795	697,421

SOURCE: Ministry of Planning & Finance, Reports on Approved Budgets & Actual expenditures for 2006, 2007 & 2008.

Table 2: Indicator PI-2: Variation in Composition of Spending Approved Budgets and Expenditures 2006, 2007 & 2008, excluding Interest payments & externally funded Investment Projects

Dados para PI-2	2006		Variação		2007		Variação		2008		Variação	
	OE	CGE	Absoluta	% Var.Abs./OE	OE	CGE	Absoluta	% Var.Abs./O	OE	CGE	Absoluta	% Var.Abs./O
Despesas internas (excluindo juros)	434,011	396,920	37091	8.5%	654,816	552,603	102213	15.6%	624,795	697,421	72626	11.6%
ASSEMBLEIA NACIONAL	14,340	12,638	1702	11.9%	20,500	22,772	2272	11.1%	17500	19500	2000	11.4%
TRIBUNAL DE CONTAS	4,108	2,531	1576	38.4%	5,158	3,590	1568	30.4%	5079	4579	501	9.9%
TRIBUNAL JUDICIAIS	7,731	5,818	1912	24.7%	8,073	6,492	1581	19.6%	9088	7754	1335	14.7%
PRESIDÊNCIA DA REPÚBLICA	5,583	3,742	1841	33.0%	5,470	3,934	1536	28.1%	8543	4494	4048	47.4%
GABINETE DO PRIMEIRO MINISTRO	4,553	2,815	1739	38.2%	4,999	2,920	2078	41.6%	7436	5960	1476	19.8%
PROCURADORIA GERAL DA REPÚBLICA	4,579	3,597	981	21.4%	7,537	3,965	3572	47.4%	9778	5801	3977	40.7%
MINISTÉRIO DA DEFESA NACIONAL	29,218	28,178	1040	3.6%	44,197	39,093	5105	11.5%	62571	54964	7607	12.2%
MINISTÉRIO NECC-SERV.INTERNO	4,174	3,345	829	19.9%	6,864	2,783	4081	59.5%	6081	4964	1117	18.4%
MINISTÉRIO NECC-SERV.EXTERNO	22,577	21,599	978	4.3%	30,835	25,966	4868	15.8%	28264	27631	633	2.2%
MINISTÉRIO DA JUSTIÇA...	8,022	7,379	643	8.0%	10,359	6,984	3375	32.6%	15323	11539	3784	24.7%
MINISTÉRIO DO TRABALHO,FAMILIA	3,668	2,821	846	23.1%	19,811	14,370	5442	27.5%	23987	19852	4135	17.2%
MINISTÉRIO DO PLANO E FINANÇAS	17,028	23,617	6589	38.7%	21,151	32,060	10909	51.6%	36243	42054	5810	16.0%
MINISTÉRIO DO COMÉRCIO	8,572	3,474	5098	59.5%	14,311	8,001	6311	44.1%	4767	3446	1321	27.7%
MINISTÉRIO DA AGRICULTURA,	4,596	3,504	1092	23.8%	0	0	0	0.0%	11746	10418	1328	11.3%
MINISTÉRIO DA EDUCAÇÃO , CULTURA,	105,895	87,943	17951	17.0%	138,764	127,283	11481	8.3%	130664	143177	12513	9.6%
MINISTÉRIO DA ADMINISTRAÇÃO PÚBLICA	6,100	3,095	3006	49.3%	10,170	5,164	5006	49.2%	8968	4102	4866	54.3%
MINISTÉRIO DOS RECURSOS NATURAIS,	10,081	6,726	3355	33.3%	69,086	5,913	63173	91.4%	25312	8250	17062	67.4%
MINISTÉRIO DAS OBRAS PÚBLICAS	19,489	14,497	4992	25.6%	29,655	26,742	2913	9.8%	21262	16594	4668	22.0%
MINISTÉRIO DA SAÚDE	52,639	50,973	1666	3.2%	90,770	62,979	27791	30.6%	69395	86837	17442	25.1%
MINISTÉRIO DA COMUNICAÇÃO SOCIAL	3,461	2,043	1419	41.0%	6,542	3,191	3351	51.2%	8147	3983	4164	51.1%
GOVERNO REGIONAL DO PRÍNCIPE	14,555	8,696	5859	40.3%	36,508	29,529	6979	19.1%	42299	36950	5349	12.6%
CÂMARAS DISTRITAIS	5,220	4,898	322	6.2%	26,068	19,256	6812	26.1%	26568	26277	291	1.1%
RESTANTES	77,823	92,989	15166	19.5%	47,987	99,618	51631	107.6%	45773	148295	102521	224.0%
Total	434,011	396,920	37091	8.5%	654,816	552,603	102213	15.6%	624795	697421	72626	11.6%

SOURCE: Ministry of Planning & Finance, Reports on Approved Budgets & Actual expenditures for 2006, 2007 & 2008.

Table 3: Indicator PI-3: Variation in Aggregate Revenues: Approved Budgets and Actuals 2006, 2007 & 2008

Dados para PI - 3	2006		2007		2008	
	OE	CGE	OE	CGE	OE	CGE
Receitas Internas	285,628	323,510	383,180	373,983	410,833	451,072
% Realização	113.3%		97.6%		109.8%	

SOURCE: Ministry of Planning & Finance, Reports on Approved Budgets & Actual expenditures for 2006, 2007 & 2008.