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SÃO TOMÉ AND PRÍNCIPE

ASSESSMENT USING THE PUBLIC EXPENDITURE AND FINANCIAL ACCOUNTABILITY ASSESSMENT (PEFA) PERFORMANCE MEASUREMENT FRAMEWORK (DRAFT)

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ABBREVIATIONS AND ACRONYMS

NA - National Assembly
2ª Comissão - 2nd Committee of the National Assembly
WB - World Bank
CCIAS - Câmara de Comércio, Indústria e Agricultura e Serviços - Chamber of Commerce, Industry, Agriculture and Services
CGE - Conta Geral do Estado - General State Accounts (Annual Public Accounts)
COFOG - Classification of Functions of Government
COSSIL – Coordenação e Seguimento do Sistema de Licitações e Contratações Públicas - Coordination and Monitoring of Public Contracts and Tenders System
CS-DRMS - Commonwealth Secretariat - Debt Recording Monitoring System
BCSTP - Banco Central de São Tomé e Príncipe - Central Bank of São Tomé and Príncipe
BISTP – Banco Internacional de São Tome e Principe - International Bank of São Tome and Principe
DR - Diário da República - Official Bulletin
DA – Directorate of Customs
DAP - National Directorate of Public Administration
DBS - São Tomé and Príncipe Dobras
DCI - Directorate of International Cooperation
DCP - Directorate of Public Accounting
DI – Directorate of Tax
DO – Directorate of the Budget
DP – Directorate of Planning
DT – Directorate of Treasury
DRI - Debt Relief International
IMF - International Monetary Fund
PFM - Public Finance Management
GFS – Government Financial Statistics
GSTP – Government of São Tomé and Príncipe
IGF - Inspectorate General of Finance
INTOSAI - International Organisation of Supreme Audit Institutions
Lei do SAFE - Lei nº3/2007 sobre o Sistema de Administração Financeira do Estado - *Lei SAFE* - Law No. 3/2007 on the Integrated System of State Finance Management
MIA - Ministries, Institutes and Agencies
MPF - Ministry of Planning and Finance
MNE - Ministério dos Negócios Estrangeiros - Ministry of Foreign Affairs
NA - Not applicable
OGE - State Budget
MTEF - Medium-Term Expenditure Framework
MTFF - Medium-Term Fiscal Framework
RT - Relatórios Trimestrais – Quarterly Expenditure Reports

SAFE - Sistema de Administração Financeira do Estado – Integrated System of State Finance Management
NIA - No Information Available
TC- Tribunal de Contas – Court of Accounts (São Tomé and Príncipe's Supreme Audit Institution)

INTRODUCTORY NOTE

Safege was contracted by the European Commission to undertake the second assessment of the Public Finance Management (PFM) system in São Tomé and Príncipe in accordance with the PEFA methodology. To this end, a team of three independent advisers was set up: Torun Reite (Team leader), Conceição Baptista and Domenico Polloni. The project was funded by the European Commission, on behalf of the Government of São Tomé and Príncipe and by its Development Partners.

This report presents the 2013 draft PEFA assessment of the Public Finance Management (PFM) system in São Tome and Príncipe, based on assignments carried out in July 2013 and September 2013 respectively. In line with the PEFA (Public Expenditure & Financial Accountability) methodology this assessment was carried out on the basis of:

(i) Semi-structured interviews and working meetings conducted between 15 July and 2 August 2013 and between 5 and 12 September. The list of participants is annexed to this report.

(ii) A detailed analysis of the relevant official documents, legislation and other data and reports provided concerning (sic). The list of basic information provided by the authorities and accessible on the Internet is annexed to this report. One of the key documents is the previous PEFA report carried out in 2009.

(iii) An analysis of the Public Finance Management system by the team in accordance with the PEFA methodology.

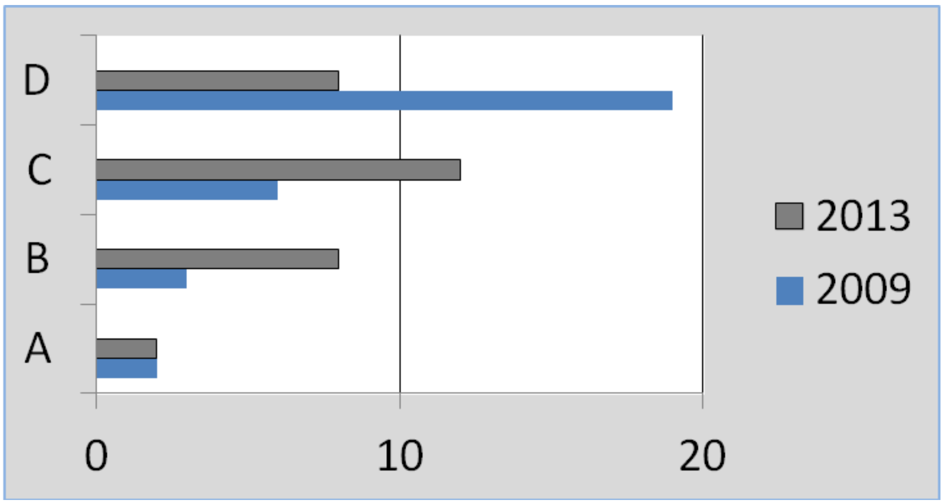
This draft report will be submitted for comments to the Government of São Tomé and Príncipe and to its Development Partners, as well as to the PEFA Secretariat in Washington D.C.

We would like to thank the Minister of Planning and Finance, Dr. Hélio Almeida, for the assistance provided throughout the PEFA process.
We would also like to thank Dr. Joana Damiana Varela, Director of the Directorate of Accounts and her team for the leadership and coordination of the assessment on behalf of the STP Government and for the support provided to the team in the establishment of the work program and coordination of the necessary inputs. Finally, a special word of thanks to the other members of the PEFA Steering Committee, Dr. Ana Maria de Conceição Silveira (Director of Treasury), Dr. Genésio de Mata (Director of the Budget), Dr. Filipe Moniz (Director of Planning), Dr. Raúl d'Almeida Viana (Inspector General of Finance) and the entire technical team of the Directorates.

2013 PEFA ASSESSMENT SUMMARY

The 2013 PEFA assessment shows a positive development in relation to performance in Public Finance Management (PFM) and the outcome of the PEFA assessment is encouraging. The overview of scores accorded is evidence of progress as a result of reform implementation with an impact in the short term.. It is possible to conclude that there is a positive dynamic and trend. Figure 1 shows a diagram of the distribution of scores accorded in the 2013 PEFA assessment compared to the 2009 PEFA assessment.

Figure 1 Distribution of scores 2013 and 2009



In 2013, 2 As, 8 Bs, 12 Cs and 8 Ds were accorded. The figure shows the distribution of A, B, C and D scores granted in the 2013 PEFA as compared with the PEFA assessment 2009. In 2009, 2 As, 3 Bs, 6 Cs and 19 Ds were granted. Table 1 on page 8 shows the scores by indicator and by dimension.

The progress in the orderliness and participation in the annual budget process as well as the greater transparency and comprehensiveness of the budget information available to the public are commendable. Moreover this achievement is also reflected in an improvement in the legislative (parliamentary) scrutiny of the annual budget law. The first signs of improvement in relation to the medium-term fiscal framework are also notable but the impacts are yet to materialise in full. The credibility of the budget remains one of the major challenges, however, as there is a substantial variation between initial appropriation and expenditure out-turns.

One element of PFM reform with an already visible impact in the outcomes of this PEFA assessment is the reform within the treasury unit related to liquidity and cash management. Elements include the creation of a Single Treasury Account (CUT) structure administered by the Central Bank of STP, the reduction of accounts outside the CUT structure and greater control over bank accounts and deposits in commercial banks. Within this context, it is important to highlight the financial planning and *plafonds* ("ceilings") introduced with SAFE-e. All these factors enable extended access to liquidity and better management of liquid assets and cash. There are still areas with shortcomings requiring attention but the first positive signs are already visible.

With regard to the availability of funds for commitment and expenditure in the financial year, the Ministries, Departments and Institutions receive monthly *ceilings (plafonds)* within which they are able to commit and request payments. These *ceilings* (*plafonds)* are established in view of the needs of the Budget Entities (UGs) in part but mainly in view of cash/liquid asset availability. These elements contribute to an improvement in this dimension compared to the previous assessment and a "C" is accorded in 2013 compared to a "D" in 2009.

The tax area continues to demonstrate progress as indicated in this assessment. Major challenges still exist within the context of structural and institutional reforms in the area of tax management. However, the customs authority is in a more advanced stage of reform and this is reflected, inter alia, in the custom clearance declaration process. These last aspects are not covered by the PEFA methodology but they are worth highlighting, nevertheless.

The 2013 assessment is more positive in relation to internal controls at transaction level, in terms of both non-salary expenditure and payroll. However, a broader vision of internal control with an emphasis on management, not only by the MPF Directorates but also the Budget Entities (UG) themselves, would be important for a better performance. The SAFE-e tool, currently being implemented, is an important vehicle in this respect.

With regard to the nature and objectives of internal and external auditing, improvements were observed in the 2013 assessment compared to the 2009 assessment, some justified by the reforms implemented, others by greater access to information this time. It is important to underline that the level of response to and follow-up on the findings of the audits and the monitoring process still represent major challenges.

Overall, advances have been made and there is an improvement in the scoring that demonstrates broad engagement to PFM reform as well as strong Government commitment to continued reform implementation. . However, it is important to underline that vulnerabilities and risks exist which need to be managed. One of these is represented by the challenges faced in the transition process from the previous Financial Management System (FMS) "Safinho" to the new FMS system "SAFE-e", which began in the second quarter of 2012 and has yet to be completed. It is of the utmost importance to achieve a stable production situation. The team believes it is important that immediate steps are taken to manage the situation and put in place the required capacity and skills. A number of points are raised which are considered significant:

- Emphasis on reform management;
- Reaching a stable production stage and continuing to *roll-out* SAFE-e;
- Greater clarity of the global vision: concepts, principles and standards;
- Focus on internal control and suitability and adaptation of routines to the new IT environment/based on SAFE-e and our particular systems;
- Simplifying the SAFE-e user interface and provide more training users within budget entities (UG);
- Managing contracts with suppliers within a lifecycle perspective.

Once these vulnerabilities in the transition process are managed, the team believes that the impact on SAFE-e performance would be even greater.

Table 1: Assessment summary

PFM Performance indicator		Scoring methodology	Score by Dimension				Score by indicator
			i.	ii.	iii.	iv.	
A. PFM - OUTCOMES: Credibility of the budget							
PI-1	Aggregate expenditure out-turn compared to original approved budget	M1	C				C
PI-2	Composition of expenditure out-turn compared to original approved budget	M1	D	A			D+
PI-3	Aggregate revenue out-turn compared to original approved budget	M1	B				B
PI-4	Stock and monitoring of expenditure payment arrears	M1	B	C			C+
B. CROSS-CUTTING ISSUES: Comprehensiveness and Transparency							
PI-5	Classification of the budget	M1	B				B
PI-6	Comprehensiveness of information included in budget documentation	M1	A				A
PI-7	Extent of unreported government operations	M1	C	C			C
PI-8	Transparency of inter-governmental fiscal relations	M2	A	A	A		A
PI-9	Oversight of aggregate fiscal risk from other public sector entities	M1	C	D			D+
PI-10	Public access to key fiscal information	M1	B				B
C. BUDGET CYCLE							
C(i) Policy-based budgeting							
PI-11	Orderliness and participation in the annual budget process	M2	C	A	C		B
PI-12	Multi-year perspective in fiscal planning, expenditure policy and budgeting	M2	C	A	B	D	C+
C(ii) Predictability and control of budget implementation							
PI-13	Transparency of taxpayer's obligations and liabilities	M2	B	A	B		B+

PFM Performance indicator		Scoring methodology	Score by Dimension				Score by indicator
			i.	ii.	iii.	iv.	
PI-14	Effectiveness of measures for taxpayer registration and tax assessment	M2	B	C	B		B
PI-15	Effectiveness in collection of tax payments	M1	D	A	B		D+
PI-16	Predictability in the availability of funds for commitment of expenditure	M1	B	C	C		B+
PI-17	Recording and management of cash balances, debts and guarantees	M2	C	B	D		C
PI-18	Effectiveness of payroll controls	M1	C	D	C	D	D+
PI-19	Competition, value for money and controls in procurement	M2	B	C	C	C	C+
PI-20	Effectiveness of internal controls for non-salary expenditure	M1	C	C	C		C
PI-21	Effectiveness of internal audit	M1	B	B	C		C+
C(iii) Accounting, recording and reporting							
PI-22	Timeliness and regularity of accounts reconciliation	M2	C	C			C
PI-23	Availability of information on resources received by service delivery units	M1	C				C
PI-24	Quality and timeliness of in-year budget reports	M1	C	C	C		C
PI-25	Quality and timeliness of annual financial statements	M1	C	D	C		D+
C(iv) External scrutiny and audits							
PI-26	Scope, nature and follow-up of external audit	M1	B	C	C		C+
PI-27	Legislative scrutiny of the annual budget law	M1	A	A	B	B	B+
PI-28	Legislative scrutiny of external audit reports	M1	D	D	D		D
D. DONOR PRACTICE							
D-1	Predictability of Direct Budget Support	M1	NP	NP			NP
D-2	Financial information provided by donors for budgeting and reporting on project and program aid	M1	D	D			D
D-3	Proportion of aid managed by use of national procedures	M1	D				D

SCOPE OF OBJECTIVES OF AN EFFECTIVE PFM SYSTEM

One of the purposes of this PEFA assessment is to establish the extent to which the PFM achieves the three main budget objectives set out below:

- One, maintenance of aggregate budget discipline;
- Two, strategic resource allocation and
- Three, operational efficiency in public service delivery

With regard to aggregate budget discipline, it should be pointed out that the budget policy is guided by the benchmark and target of maintaining a domestic primary deficit of 3.1% of GDP (almost unchanged since 2012). In order to maintain the defined fiscal target, the authorities of São Tomé have implemented rigorous management of cash based on available revenue and liquidity. Due to the shortfalls in external financing and domestic revenue in 2012, budget expenditure has been contained and cash rationing and management is more predominant than budget management. With a view to provide space for expenditure on priority infrastructures in the medium term and to reduce poverty the authorities have defined as priorities an increase in the collection of revenue, modernisation of the fiscal and customs authorities and widening of the tax base. Towards this end, it is essential to forecast the available resources from domestic and foreign revenue.

In order to improve the effectiveness of the strategic resource in line with strategic priorities, the improvements in the orderliness and participation in the budget formulation process, more specifically, the clarity and comprehensiveness of instructions (Budget Circular) on the preparation of budget proposals already represents an improvement. Improvements in formulating a policy-based budget through sector-based strategies within the context of the medium-term fiscal framework, still in the initial stages and with a limited impact as yet, will create a basis for more effective allocation of public resources in line with agreed strategic priorities.

Improvements in the predictability of cash and cash forecasts with a longer horizon are also important factors for the management of the budget, in addition to increased commitments controls and monitoring of payment arrears – which will involve more rigorous internal control in general. Overall, these improvements as a whole will guarantee the credibility of the budget.

These factors are also crucial for the delivery of goods and services with the necessary operational efficiency. The above-mentioned aspects are vital for achieving the desired operating efficiency in the delivery of goods and services.

I. Introduction

Reforms within the context of Public Finance Management especially within the areas of Accounting, Budget and Treasury have produced significant and positive outcomes. A major achievement is the adoption of the principle of the Single Treasury Account, regulations for and presentation of financial statements and regular financial reporting, and the implementation of Safinho and, more recently (in 2012) , the transition from this system to the SAFE-e system as a tool for budget execution and implementation. The country has also been adapting the legislative framework to the ongoing reforms.

These reforms have been considered a priority by the XV Government of the Country, currently in office, and by previous Governments. As a result of external impacts, more attention has been given to the increase in domestic revenue, with the stimulation of the private sector, which has been called upon to play a prominent role in the country's development. To this end, the Government has adopted policies aiming at the creation of a better business environment by means of fiscal and other reforms encouraging the private sector to invest and fulfil its fiscal and customs obligations. In addition, domestic revenue has an increasing importance – demonstrated by external impacts over the last ten years pointing to the need to incentivise the private sector, create a more favourable business environment and introduce reforms in fiscal administration.

National executives and officers have shown remarkable commitment to the implementation of these reforms and, perceiving this, STP's external partners have given their systematic support, through technical assistance and the necessary funding. In addition to the efforts of executives and officers in the implementation of these reforms, which are noteworthy, the implementation of these reforms has received support in the form of technical assistance and external funding to implement most of the initiatives. Within this framework the Government has agreed on a system of monitoring and assessment of reform implementation including an independent assessment in accordance with the PEFA – Public Expenditure and Financial Accountability – methodology; this methodology enjoys international recognition and is applied in around 130 countries distributed over continents as diverse as Africa, Asia and Europe.

The 2013 PEFA assessment in São Tome and Príncipe (STP) is the second exercise performed in accordance with this methodology and, in view of its comprehensiveness nature, and specific criteria, will serve as a basis for a decision on the programme of cooperation between STP and the European Commission within the framework of the 11th EDF programme, hence its added importance.

II. COUNTRY BACKGROUND

A. Economic situation

The Democratic Republic of São Tomé and Príncipe (STP) is small island country, located in Western Africa with Portuguese as the official language (the second smallest African country after Seychelles). In 2012, STP had an estimated population of around 189,000 inhabitants. In 2012, the GDP per capita was estimated to around USD 1,402, close to the average of sub-Saharan African countries but below the average for the group of medium to low income countries to which STP belongs. Exports consist of mainly cocoa and the emerging tourist industry; although growing, these are maintained at a modest level. In 2009, approximately 66% of the population lived below the poverty line and in the same year around 13% of children under the age of 5 were suffering from malnutrition. In the 2012 Human Development Index, drafted by the UNDP, STP is a country with a low level of development and occupies 144th place among the 186 countries classified, between the Solomon Islands and Kenya. This means that it is above average for sub-Saharan countries and countries with low levels of development. The reduction of poverty and sustainable economic growth remain large-scale challenges for the country's economic policies and, in particular, the budget policy.

The growth of GDP, already affected by the global financial crisis, subsided in 2012 (+4% against more than +9% in 2009), reflecting persistent general uncertainty in Europe, the continent on which STP depends essentially for loans and budgetary donations. This led to delays to the execution of the public investment programme financed with external resources. However, a prudent budget and monetary policy have promoted a fall in inflation which, at 8% in April 2012, dropped to the lowest level in a decade before rising again (10.5% at the end of 2012) largely owing to the import of perishables which rose considerably in international markets.

The positive economic growth outlook in the medium term remains closely linked to the start of petroleum production and hydrocarbon exports projected for 2015, which will reduce the current balance deficit considerably (currently 21% of GDP, including official transfers). In addition to the exploration of oil platforms in the Joint Development Zone (ZDC) with Nigeria and in the Exclusive Economic Zone (ZEE), the Government plans an increase in infrastructure project investments, in particular, to support the development of tourism and the construction of a deep water port (which should commence in 2014). The development of agriculture and fisheries is the other essential axis in the National Poverty Reduction Strategy, and the other major budget priority. The concentration of social expenditure in the health and agriculture sectors over the last two years explains why STP is progressing well in the achievement of the Millennium Development Goals in universal primary education (98.6% in 2010), the reduction of infant mortality (estimated at 88.8% in 2011) and the eradication of malaria (29 deaths per 100,000 inhabitants in 2010) .

The economic programme for 2012-2015, adopted by the new coalition government, which took office at the end of 2012, is based on the limitation of the domestic primary deficit within the non-debt-generating financing available, on one hand, and on the mobilisation of additional domestic revenue for the realisation of priority infrastructures and social expenditure to alleviate poverty, on the other. Therefore, the structural reforms on the Government's agenda include strengthening financial management, in order to improve the collection of revenue and effectiveness of expenditure, consolidating the monetary policy to maintain the exchange rate parity of the dollar with the euro and contain inflationary pressure and increasing bank supervision and anti-money-laundering measures in the face of strong international pressure. In 2013, the programme of reforms agreed with the IMF will focus on the tax and customs authorities and public finance management. The main specific actions planned under the Extended Credit Facility include measures to improve management of data relating to taxpayers in the tax authority (a single computerised register of taxpayers to be set up by the end of December 2013), implementation of the second phase of SYDONIA WORLD, preparation and submission of the 2011 and 2012 General State Accounts to the Court of Accounts for an opinion and subsequent delivery to the National Assembly for approval and finalisation of a plan to eliminate payment arrears, including the cross arrears of para-State agencies.

B. Budgetary outcomes

The following table summarises the most significant fiscal outcomes of the Government of STP (GSTP), compiled using the data contained in the IMF's report 13/208, 'First assessment within the framework of the extended credit facility'. This relates to information provided by the Government to the IMF and reprocessed by the Fund's Technical Body; however, the information does not always correspond precisely to the data used by the GSTP for the purposes of this PEFA assessment.

In summary, the important trends of the Government's budget policy consist in containing the primary budget deficit, limiting transfers and slowing the rate of execution of projects financed using domestic resources. In order to create additional space for expenditure on priority infrastructure and reduce poverty with a medium-term impact – the authorities have defined the following as priorities: reinforcing revenue collection, modernising the tax and customs authorities and widening the tax base and tax compliance. In the short term, STP maintains considerable external dependence. The minimum expenditure threshold for poverty reduction established with the IFM within the framework of the credit facility was met almost entirely but undoubtedly the social sectors have suffered to some extent owing to difficult financing terms.

Table 2: Central Government's Budget						
Unit: billions of dobras						
Budget Components	**Value**			**% GDP**		
	2010	**2011**	**2012**	**2010**	**2011**	**2012**
Tax and non-tax revenue	677	787	771	18.2%	18.0%	15.3%
Donations	739	799	876	19.9%	18.3%	17.4%
Oil signature bonus	0	35	38	0.0%	0.8%	0.8%
Total revenue	**1416**	**1621**	**1685**	**38.1%**	**37.0%**	**33.5%**
Current expenditure not including interest payments	721	827	845	19.4%	18.9%	16.8%
Interest owing	16	24	30	0.4%	0.5%	0.6%
Capital expenditure	1066	1266	1336	28.7%	28.9%	26.5%
Social expenditure related to HIPC initiative	21	29	14	0.6%	0.7%	0.3%
Total expenditure	**1824**	**2146**	**2225**	**49.0%**	**49.0%**	**44.2%**
Domestic primary balance	-152	-133	-163	-4.1%	-3.0%	-3.2%
Budget balance (commitments basis)	**-408**	**-525**	**-540**	**-11.0%**	**-12.0%**	**-10.7%**
Arrears and statistical corrections	-58	26	63	-1.6%	0.6%	1.3%
Budget balance (cash basis)	**-466**	**-499**	**-477**	**-12.5%**	**-11.4%**	**-9.5%**
External financing	246	461	558	6.6%	10.5%	11.1%
Domestic financing	220	38	-81	5.9%	0.9%	-1.6%
Total financing	**466**	**499**	**477**	**12.5%**	**11.4%**	**9.5%**
Financing deficit	0	0	0			
GDP estimate	**3719**	**4376**	**5034**			

[S]ource: IMF; drafted by advisers.

At the end of December 2011 the impact of the external debt amounted to USD 200.9 million (around 80% of GDP), of which 21% owing to multilateral creditors, particularly IDA and IFAD, and 79% to bilateral creditors, particularly Portugal (23% of the impact), Angola and Italy. It should be pointed out that STP reached the completion point of the consolidated HIPC Initiative in March 2007 and, therefore, benefited from a 54% alleviation of the total debt prior to the HIPC completion point, so improving the country's indebtedness profile.

However, according to the latest 'Joint IFM/World Bank analysis of debt sustainability' in July 2012, São Tomé and Príncipe still presents a high risk of over-indebtedness. In the basic scenario, which does not include the planned commercialisation of hydrocarbons, the current value ratio of debt to exports remains above the country's specific indicative threshold for a prolonged period, given its strict exporting basis. Bearing in mind the prospective commercial production of petroleum from 2015 and the direct foreign investment associated therewith, the projected debt profile is consistent with a manageable but high risk debt dynamic; even so, it is not exempt from new efforts to diversify the economy and expand the export basis in the medium term.

The following table shows the trends in the economic allocation of resources, on the basis of the above-mentioned data, and confirms the picture of reduced debt service already outlined, owing to the alleviation of debt, prudent current expenditure management, especially in relation to transfers, and the stability of the capital investment level.

Table 3: Actual budget allocations for economic classification (% of total expenditure)

Components	2010	2011	2012
Current expenditure	**40.4%**	**39.7%**	**39.4%**
Wages and salaries	17.0%	17.2%	18.8%
Goods and services	10.5%	10.9%	8.9%
Interest payments	0.9%	1.1%	1.3%
Transfers	10.5%	8.4%	8.5%
Other	1.5%	2.0%	1.8%
Capital expenditure	**58.5%**	**59.0%**	**60.0%**
Social expenditure - HIPC initiative	**1.2%**	**1.4%**	**0.6%**

Source: IMF; drafted by advisers.

It is not possible to have a precise idea of the allocations by sector, since the functional classification of the budget does not follow the COFOG pattern completely but the table below, drafted by the team of advisers on the basis of data supplied by the GSTP during this PEFA assessment, shows the administrative division of expenditure over the last two years[1].

This documents, indirectly, the extent to which the priorities incorporated into the National Poverty Reduction Strategy are reflected in the government's priorities. In fact, education and health together make up almost 30% of the expenditure.

[1] The information for 2010 cannot be presented as the administrative organisation of the Government was changed during that year.

Table 4: Administrative allocations (% of total expenditure implemented)		
ENTITIES	**2011**	**2012**
NATIONAL ASSEMBLY	3.7%	4.0%
COURT OF ACCOUNTS	0.8%	1.2%
LEGAL TRIBUNALS	3.0%	3.2%
PRESIDENCY OF THE REPUBLIC	1.0%	0.9%
PRIME MINISTER’S OFFICE	1.6%	1.7%
ATTORNEY GENERAL’S OFFICE OF THE REPUBLIC	1.1%	1.2%
MINISTRY OF NATIONAL DEFENCE	9.3%	8.6%
MINISTRY OF FOREIGN AFFAIRS, COOPERATION AND COMMUNITIES	5.8%	7.9%
MINISTRY OF JUSTICE, STATE REFORM AND PUBLIC ADMINISTRATION	1.6%	1.7%
MINISTRY OF FINANCE AND INTERNATIONAL COOPERATION	9.8%	8.3%
MINISTRY OF PLANNING AND DEVELOPMENT	4.0%	3.9%
MINISTRY OF EDUCATION AND CULTURE	20.5%	19.0%
MINISTRY OF PARLIAMENTARY AFFAIRS AND DECENTRALISATION	0.5%	0.5%
MINISTRY OF PUBLIC WORKS, INFRASTRUCTURES, TRANSPORT AND COMMUNICATIONS	4.0%	3.0%
MINISTRY OF HEALTH AND SOCIAL AFFAIRS	12.3%	12.1%
STATE DEPARTMENT OF YOUTH AND SPORT	0.5%	0.6%
REGIONAL GOVERNMENT OF PRÍNCIPE	3.8%	4.0%
DISTRICT COUNCILS	5.1%	4.9%
GENERAL STATE DUTIES	11.7%	13.3%

Source: Ministry of Planning and Finance

C. Legal and institutional framework of PFM

The principal regulations governing Public Finance Management are:

The Constitution of the Republic establishes the respective responsibilities of the Government (the Executive) and National Assembly (the Legislature) relative to the State Budget. It also defines the responsibility of the Public Administration with regard to the delivery of services and payment of taxes by citizens.

Law 3/2007 on the Integrated System of State Finance Management, known as the *Lei SAFE*, establishes the principles and common general rules framing the budgets of the administrative entities. These are applicable to the entire Administrative Public Sector and include rules and procedures for the organisation, drafting, presentation, discussion, approval, alteration and implementation of the budget, as well as the rules and procedures for the organisation, formulation, presentation, discussion and approval of the accounts applicable to the Budget and State Accounts only. It further establishes the role and operation of the five subcomponents of the SAFE system – namely, the subcomponent for the Treasury (Tesouro Público), Public Accounting, State Assets (Património do Estado) and Internal Control.

The Annual Budget Decree-law: the *Lei SAFE* stipulates that, following approval of the State Budget, the Government must take the necessary measures to ensure that it is implemented via the approval and publication of the corresponding Decree-law.

The Annual Budget Decree-law: the *Lei SAFE* stipulates that, following approval of the State Budget, the Government must take the necessary measures to ensure that it is implemented via the approval and publication of the corresponding Decree-Law.

Law No. 3/2007, (Lei Orgânica do Tribunal de Contas - Organic Law of the Court of Accounts), creates the Court of Accounts conferring full independence thereon, separate from the Supreme Court of Justice, with the duties of the Supreme Audit Institution of the State.

Decree-law No. 56/2006 defines the mission, legal nature, scope and powers of the Inspectorate General of Finance.

Law No. 8/2009, (Regulamento de Licitações e Contratações Públicas - Public Contracts and Tenders Regulation), approves the regulatory framework governing public tenders and contracts. This Law defines the powers and obligations relating to public procurement. Following the guidelines defined 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 the *Gabinete de Coordenação e Seguimento do Sistema de Licitações e Contratações Públicas* (Office of Coordination and Monitoring of Public Contracts and Tenders System) (COSSIL) within the Ministry of Planning and Finance as the entity responsible for the coordination of the procurement process, definition of operating policies, development of skills and maintenance of a procurement database.

The *Lei das Finanças Locais* (Local Finances Law) No. 16/1992 and *Lei-quadro das Autarquias* (Framework Law on Autonomous Regions) No. 10/2005 regulate the financial system for regional and local government and specify the bases on which they should receive annual transfers from Central Government (details in the (sic)

Law No. 18/2009 Approves the General State Inventory. Furthermore, a regulative framework was created in respect of most decrees, approved in the last few years:

- Decree No. 32/2009 Approves the Organic Statute of the Directorate of Treasury
- Decree No. 8/2008 Approves the Organic Statute of the Directorate of Public Accounting
- Decree No. 26/2012 Defines and Clarifies the Mission, Powers and organisational structure of the Directorate-General of Planning of the Ministry of Planning and Development
- Decree No. 61/2009 Approved the Organic Statute of the Directorate of the Budget
- Decree No. 7/2010 Regulation on Single Service Point for Creating a Company
- Order No. 13/2009 financial administration, new bank order
- Decree-law No. 56/2006 Defines the Nature, Mission, Framework and Powers of the Inspectorate General of Finance
- Decree No. 42 /2012 Year of Presentation of Accounts
- Decree No. 47 /2009 Management and Disposal of Movable and Immovable Property and Vehicles of the State.

III. ASSESSMENT OF THE PUBLIC FINANCE MANAGEMENT SYSTEM

A. Credibility of the Budget

The indicators in this area make it possible to assess the extent to which the budget is realistic and whether it was implemented as planned, including an assessment of payment arrears. The assessment involves a comparison of the revenue and expenditure out-turns compared with the budgeted amounts, analysing the deviation between out-turns and the originally approved budget, and an assessment of the management of payment arrears.

PI-1 Aggregate expenditure out-turn compared to original approved budget

PI-1 Aggregate expenditure out-turn compared to original approved budget (M1 scoring methodology)	**2008**	**2012**
	C	**C**
(i) The difference between actual primary expenditure and the originally budgeted primary expenditure	**C**	**C**

Information on the budgeted primary expenditure is accessible via the web page of the Ministry of Planning and Finance of São Tomé and Príncipe (http://www.min-financas.st/). Data on aggregate expenditure, excluding debt service payments and expenses connected to projects financed by external donors, are not directly accessible to the public in general but were provided by the Ministry of Planning and Finance (MPF) and are included in the budget database used internally. The data are still considered preliminary and thus represent estimates until the presentation and publication of the financial report for the financial year 2012 and the General State Accounts 2012, which are still being drawn up.

The calculations made are based on the cash principle and show that the expenditure deviation compared to the original budget was 3.2% in 2010, 10.7% in 2011 and 14.5% in 2012. As expenditure deviated from the original budget by more than 10% in two of the last three years, C is the most appropriate score according to the PEFA methodology. This result is equal to the result of the 2009 PEFA assessment. It should be pointed out that the deviations just marginally fall short to out-turns that would justify a higher score, indicating a positive trend. Furthermore, it should be underlined that total expenditure was lower than budgeted in the three years overall. The drop in internal revenue, donations and external financing, which was notable in 2012, required prudent public finance management in order to contain spending.

PI-2 Composition of expenditure out-turns compared to original approved budget

PI-2 Composition of expenditure out-turns compared to original approved budget (M1 scoring methodology)	2008	2012
	D	**D+**
(i) Extent of the variance in expenditure composition during the last three years excluding contingency items	**D**	**D**
(ii) The average amount of expenditure actually charged to the contingency vote over the last three years	**NP**	**A**

As stated above, the information on approved budgeted items is accessible via the web page of the Ministry of Planning and Finance of São Tomé and Príncipe (http://www.min-financas.st/) and is presented at a disaggregate level in accordance with the economic and administrative classification.

Data on budget expenditure and the implementation of the budget is scarce, but some information is accessible to the public. The data for 2012 are preliminary and not yet fully available to the public since financial statements for the financial year 2012 have not yet been made available. The assessment is made on the basis of information provided by the MPF. The degree of variation in the expenditure composition during the last three years, excluding contingency items – for which there is no record in STP's OGE – was high in 2010 and 2011, at 16.6% and 18.8% respectively, falling sharply to 5.3% in 2012. Therefore, a classification of D will be appropriate for the first dimension of the indicator.

STP's State Budget (OGE) does not include any provision or allocation for contingency items. In accordance with the PEFA methodology, the absence of allocation for contingency items automatically leads to an A for this second dimension of the indicator, which is scored for the first time, as the dimension was introduced after the 2009 assessment.

Consequently, the score for indicator PI-2 in accordance with the PEFA methodology and bearing in mind the application of the M1 approach, is D+ for this indicator – a score equalling the result in 2009 in the case of the first dimension, but slightly improved due to the introduction of the new second dimension.

The table shows the total variation and composition of the expenditure variation.

TOTAL VARIATION – AND COMPOSITION OF VARIATION 2010-2012

	PI-1	PI-2 (i)	PI-2 (ii)
Year	*Total primary expenditure variation*	*Composition of variation*	*contingency*
2010	3.2%	16.6%	0.0%

2011	10.7%	18.8%	
2012	14.5%	5.3%	

PI-3 Aggregate revenue out-turn compared to original approved budget

PI-3 Aggregate revenue out-turn compared to original approved budget	**2008**	**2012**
(M1 scoring methodology)	**A**	**B**
(i) Actual domestic revenue compared to domestic revenue in the originally approved budget	**A**	**B**

As already stated, the information on the budgeted aggregate revenue is accessible via the web page of the Ministry of Planning and Finance of São Tomé and Príncipe (http://www.min-financas.st/). The actual domestic revenue collected is published in the Table of State Financial Transactions (TOFE) which, as a general rule, is published every quarter, but with some exceptions. For 2012 final out-turns are not yet available and the information required to assess this indicator was provided by the MPF.

The international economic and financial situations and the external and internal shocks registered over the last few years, above all in 2012, resulted in a reduction in the collection of revenue both in absolute terms and in relation to revenue projections. It should be highlighted that in absolute terms, current revenue performance continues to be positive in 2010 and 2011. However, 2012 marked a reversal of this trend. The Corporate Income Tax (IRC) represented the largest decline among domestic revenue components – 40.7% compared with the same period in 2011. Profit tax also declined and only 60.8% of the amount projected for 2012 was collected.

Domestic revenue collected from 2010 to 2012 had performance rates of 102.1% in 2010, 109.2% in 2011 and 85.2% in 2012 and this is reflected in the scoring of indicator PI-3, which dropped from A in 2009 to B in 2013.

PI-4 Stock and monitoring of expenditure payment arrears

PI-4 Stock and monitoring of expenditure payment arrears	**2008**	**2012**
(M1 scoring methodology)	**C+**	**C+**
(i) Stock of expenditure payment arrears (as a percentage of expenditure during the period) and recent change in stock	**B**	**B**
(ii) Availability of data for monitoring the stock of expenditure payment arrears	**C**	**C**

The São-Tomé authorities, represented by the MPF/DT, have established a specific routine for monitoring and managing the stock of expenditure payment arrears with regard to the so-called cross debts accumulated between the Empresa Nacional de Combustíveis e Óleos [National Fuel and Oil Company] (ENCO), Empresa de Água e Electricidade [Water and

Electricity Company] (EMAE) and MPF. For the MPF, the debt was linked mainly to the non-payment of water and energy by budget entities, a payment which was centralised until 2013 and then decentralised to each management unit who is now responsible for payment of these services. The stock of debt to EMAE and ENCO represented around 6 per cent of expenditure in 2012. Although the debt has not been eliminated, it should be pointed out that the payments made in 2013 are considerable and the accumulation of new debt very limited. Based on the data from the first half of 2013, the stock fell substantially. However, as it is yet impossible to confirm that a solution has been reached to prevent the occurrence of identical problems in future. The performance in relation to the first dimension of this indicator *Stock of expenditure payment arrears (as a percentage of the expenditure in the period) and recent stock variation*, in accordance with the PEFA methodology, points to a score of B for this dimension, which is the same result as in the 2009 PEFA assessment.

Based on the concepts relating to the phases and controls in expenditure defined in Law No.º 3/2007 on the Integrated System of State Finance Management (SAFE), expenditure that is "liquidated" (authorised for payment) but not yet paid are defined as payment arrears. However, in its current version and with the functionality provided to the Budget entitites (UG), SAFE-e, the IT based financial management system, does not apply these three phases of expenditure in accordance with the concept defined in Law 3/2007, making the management of payment arrears more complex. This situation is considered a temporary hiatus, since the MPF/DC states that it is planning to change SAFE- e so as to adopt the concepts and expenditure phases and controls in accordance with the legal and regulatory framework. The second dimension of this indicator assesses the extent to which the *data for monitoring payment arrears* are available. However, it is important to point out that, at present, data are not provided to the UGs to monitor expenditure arrears in general. Based on the documentation provided, it is concluded that there are no systematic routines to assess the existence of payment arrears. The situation in relation to this dimension is similar to the situation in 2009 and, consequently, a score of C must be maintained for this dimension. The score for indicator PI-4 Stock and monitoring of expenditure payment arrears is C+ in 2013, the same as the 2009 score.

B. Cross-cutting Issues: Comprehensiveness and Transparency

PI-5 Classification of the Budget

PI-5 Classification of the Budget (M1 scoring methodology)	**2008**	**2012**
	B	**B**
(i) The classification system used for formulation, execution and reporting of central government's budget	**B**	**B**

The budget documents and classification applied for the formulation of the draft OGE and approved budget are provided on the web page of the MPF. However, information on the classifications applied in the presentation of financial reports on the implementation of the budget is not directly accessible but can be deduced from the public finance reports, normally published on a quarterly basis, with some exceptions. . It should be noted that reporting gaps and delays have been noted in the publication of the public finance reports since September 2012 – motivated by various factors including the transition from the *Safinho* tool to the *SAFE-e* tool.

With regard to the formulation of the budget, the classifications have not altered since the last PEFA assessment. An administrative and economic classification exists and is in compliance with the GFS model and the functional classifier; it does not comply fully with the GFS-COFOG model but is compatible therewith. In general, the presentation of the budget is increasingly comprehensive and has been presented more clearly over the last few years.

With regard to public finance reports, it has already been noted that the information presented in the quarterly reports has aggregate data classified on the basis of the economic and administrative nature of the expense. Information of a functional or programmatic nature is more limited and deemed insufficient to confirm that the classification criterion is satisfied in the budget reports.

Based on this assessment, the score of B from the 2009 PEFA is attributed to indicator PI-5, a performance equal to 2009. It should be pointed out that a margin of improvement exists owing to the use of the classification in the implementation of the budget and in the reports.

PI-6 Comprehensiveness **of information included in budget documentation**

PI-6 Comprehensiveness of information included in budget documentation (M1 scoring methodology)	**2008**	**2012**
	C	**A**
(i) Information contained in latest budget documentation	**C**	**A**

The 2013 assessment shows that the vast majority of information elements required according to the PEFA methodology are available and included in the budget documentation (the budget bill and its supporting documents published on the web page of MPF) that is:

- The macroeconomic assumptions including at least estimates of aggregate growth, projected inflation for 2013 and the exchange rate policy vis-à-vis the U.S. dollar;
- The fiscal deficit, defined in accordance with the GFS;
- Deficit financing with its anticipated composition;
- The stock of debt, including details for September 2012 at least;
- The actual budget out-turn for 2011 (the year prior to the current year) presented in accordance with the economic classification within the framework of a medium-term fiscal programme;
- Current budget data, including an estimate of the implementation of the budget for 2012 (the current year), also presented in accordance with the economic classification within the framework of a medium-term fiscal programme and summarised data for the projected budget 2013 for revenue and expenses, in accordance with the organic and economic classifications for expenditure and the economic classification for revenue.

In relation to the two elements below, namely the explanation of the budget implications of new policy initiatives with estimates of budgetary impact, and information on the state's financial assets, there are still some shortcomings and gaps in the information provided.

With a budget proposal containing 7 of the 9 items of information indicated with reference to good practice and the PEFA methodology the indicator merits a score of A. The indicator shows a considerable improvement from the 2009 PEFA assessment in which it scored C. The improvement in the comprehensiveness of information is particularly significant in the budget bill for 2013.

PI-7 Extent **of unreported government operations**

PI-7 Extent **of unreported government operations** (M1 scoring methodology)	**2008** **C**	**2012** **C**
(i) Level of extra-budgetary expenditure (excluding donor-financed projects) not included in fiscal reports	**C**	**C**
(ii) Income/expenditure information on donor-financed projects included in budget reports	**C**	**C**

There is limited information on central government operations accessible to the public, even in the public finance reports (fiscal reports). In general, the presentation of accounts and financial statements by the Ministries and other budget entities (UG) is still in the early stages. This is also the case for entities with financial and administrative autonomy which do not appear directly in the fiscal reports or in the OGE. In view of the limited access to information, it is difficult to assess the level of extra-budgetary expenditure. In the case of São Tomé and Principe, two important examples are the Agência Nacional do Petróleo de São Tomé e Príncipe [National Petroleum Agency of São Tomé and Príncipe] (ANP-STP) which was set up by Decree-law No. 5/2004 of 30 June 2004 and the internal Regulation approved by Ministerial Order (and published in Bulletin of the Republic No.º 3 of 4 March 2005) and the Instituto Nacional de Segurança Social (INSS) [National Social Security Institute] created by Decree-law No. 39/94. These two institutions are separate legal entities and in this capacity, enjoying administrative, financial and asset management autonomy, nevertheless, they are an intrinsic part of the government's operations. The ANP-STP performs the duties of regulator and inspector.

The São-Tomé authorities are implementing reforms to improve both the transparency of government operations and the comprehensiveness of fiscal reports and public access. Within this context the approval of the legal and regulative framework is important to highlight. The Law No. 3/2007 "Lei do SAFE", and Decree No. 42 /2012 on the Requirements to submit financial statements and accounts, have been put forward and disseminated in seminars to provide awareness of the procedures relating to the presentation of accounts of the Institutes, National Agencies and Funds. Decree-law No. 5/2004 of 30 June 2004 and the internal Regulation approved by Ministerial Order refer to the obligation on ANP-STP to present accounts in accordance with Law 3/2007 "Lei do SAFE". Based on the information that has been provided to the team, and that has been otherwise accessible, there are still some deficiencies in its implementation. However, it should be recognised that within the framework of ongoing PFM reforms, initiatives are planned which aim at increasing the comprehensiveness of fiscal reports, including the General State Accounts (CGE) and fiscal transparency. The full entry into force of the legal and regulative framework and a greater emphasis on the presentation of accounts, including the regular presentation of the General State Accounts, will contribute to reducing these deficiencies and the level of extra-budgetary government operations. With regard to the Ministries and other Management Units, the main source of extra-budgetary expenditure (other than non-donor-financed projects) results from the direct collection of own revenue by government institutions. These cover items such as service fees related to the issue of visas and passports in embassies, hospital fees and fees collected for services provided in the agricultural sector. In most situations, the approved budget does not include estimates of these funds or the corresponding expenditure. In this area, initiatives have been taken to reduce extra-budgetary resources, for example, the approval of Decree No. 4/09 which requires that all fees received for the provision of public services must be deposited in the Treasury Account in the BCSTP.

The 2013 PEFA assessment establishes that, in practice, the situation in relation to the information accessible in the fiscal reports and the existence of extra-budgetary operations has not changed significantly since the 2009 PEFA assessment. Therefore, a score of C is accorded to this first dimension of the indicator.

With regard to external financing, the inclusion of information in the OGE has increased but the reliability of the data still represents a challenge. The fiscal reports, which are generally infrequent and contain information at a general and aggregate level, do not include data on the budgetary expenditure linked to donor-financed projects. It should be underlined that data on project expenditure financed via donations are not collected consistently except with regard to loan-financed projects. These do contain detailed information on revenue and expenditure. Within this context, a “C” is accorded to this dimension, as per the score in the previous PEFA assessment.

PI-8 Transparency of inter-governmental fiscal relations

PI-8 Transparency of intergovernmental fiscal relations (M2 scoring methodology)	**2008**	**2012**
	A	**A**
(i) Transparent, rule-based systems to determine the horizontal allocation among SN governments	**A**	**A**
(ii) Timeliness of reliable information to SN government on their allocations from central government for the coming year	**B**	**A**
(iii) Extent to which consolidated fiscal data (at least on revenue and expenditure) is collected and reported for general government according to sector categories	**A**	**A**

Transparent, rule-based systems exist to determine the horizontal allocations to sub-national governments are defined within the legal framework but specifically – the *Lei das Finanças Locais* No. 16/1992 and the *Lei Quadro das Autarquias* No. 10/200518. These Laws provide for the existence of two instruments for the transfer of funds between central and local governments: one fund to finance specific projects approved at central level and financed by international or external donations; and the *Fundo de Equilíbrio Financeiro* (FEF) to which unearmarked funds are transferred and generally utilised to cover current expenditure although, in principle, it may be used cover investment financing. The criteria for calculating the amounts to be allocated to each District Council, under the FEF, are defined in law and transparent. These depend on a formula based on geographical size, population and level of revenue collected by District/Authority. The values calculated for FEF transfers are presented in the draft State Budget approved by the National Assembly in December. The FEF transfers represent more than 90% of the total transfers to Districts/Authorities. On this basis, a score of “A” is accorded to this dimension of the indicator, the same as in 2009.

With regard to the timeliness and credibility of the information from Central Government to local governments on its allocations/appropriations for the following year, it should be pointed out that the indicative budget ceilings are presented to 6 district councils (*câmaras distritais*) (Água Grande, Cantagalo, Caué, Lemba, Lobata and Mezochi) in São Tomé, and the Special Autonomous Region of Príncipe in the budget circular. The process for formulating the budget follows the same calendar and schedule as in all Ministries and budget entities. Dialogue and discussion routines exist based on budget proposals by the district councils. The allocations/appropriations attributed to each of them are contained in the OGE. Given the improvements implemented recently in relation to the drafting of the budget, a score of “A” is accorded to this dimension, which represents an improvement in this PEFA assessment compared with the previous one in which a “B” was accorded.

The vast majority of budget expenditure by the district councils and the revenue collected are included in the treasury system and held in registered bank accounts within the Single Treasury Account structure. The extra-budgetary resources are considered to be limited. Until March 2012 the Safinho tool was applied for budget execution by most of the budget entities including district Councils. Currently a process of transition to the SAFE-e tool is under way. The roll-out is still in its early stages, concentrated in the MPF and one centralised site available to all UGs, with priority being given to the central UGs and Ministries. This means that during this transitory phase, District Councils will have no access to this tool, unlike before. In relation to the consolidation of fiscal data, regulations exist which require systematic routines for presentation of financial statements and accounts by the District Councils, which capture the vast majority of revenue estimated at more than 90% of the resources available. However positive this performance, there is still room for improvement.

The sector-based classification is being applied and the information has been in line with the budget classification. Based on the information provided, an “A” was granted to this dimension. A score of “A” for indicator PI-8 is the same as in the 2009 assessment.

PI-9 Oversight of aggregate fiscal risk from other public sector entities

PI-9 Oversight **of aggregate fiscal risk from other public sector entities** (M1 scoring methodology)	**2008**	**2012**
	D+	**D+**
(i) Extent of Central Government monitoring of autonomous government agencies (AGA) and public enterprises (PE)	**C**	**C**
(ii) Extent of Central Government monitoring of SN governments’ fiscal positions	**D**	**D**

In terms of oversight of fiscal risks, central government should on a regular basis receive information that enables it to monitor the financial situation of public enterprises and Autonomous Government Agencies. Currently there is a limited number of public enterprises and AGAs that submit financial statements and regular reports to the Treasury. Moreover, there are no systematic routines for assessment and analysis of the fiscal risk linked to PEs and AGAs. With regard to the cross debts of ENCO and ENAE, it was necessary to establish an ad hoc procedure to solve the specific problem. It has not been possible to verify and get complete information on the number of PEs and AGAs that submit their annual reports to the relevant entities but a sample of annual reports from major public corporations was analysed.

Due to the lack of a systematic routine for fiscal risk analysis, a “C” was accorded to this dimension.

Regarding the extent of Central Government monitoring of sub-national governments and in this particular case the District Councils /municipalities’ fiscal positions, it should be stressed that within the context of the General State Accounts 2010, which were produced for the first time in 2013, data were collected from the municipalities and *Autarquia Especial* of Principe. It is hoped that regular reporting and monitoring of the District Councils will improve when drafting the General State Accounts 2011 and subsequently the General State Accounts for 2012. It is also expected that the process can be adjusted to include a fiscal risk analysis. However, the practice at present has not improved significantly since the last PEFA assessment and there are no systematic fiscal risk analysis routines for District Councils. Consequently, a “D” was accorded to this dimension, resulting in a score of “D+” for this indicator, the same assessment as in 2009.

PI-10 Public access to key fiscal information

PI-10 Public access to key fiscal information (M1 scoring methodology)	**2008**	**2012**
	C	**B**
(i) Fiscal and budget information elements available to the public	**C**	**B**

This indicator assesses the budget information made available to the public. In accordance with the PEFA methodology, there are 6 key elements that in line with good practices should be made available and the following paragraphs present an assessment of the availability of those elements in STP:

(i) The annual budget documentation is accessible on the web page of the MPF. The documentation is comprehensive and includes the preliminary bill, the bill, the approved budget and supporting documents. The public has access after the draft budget is delivered to parliament.

(ii) Reports on the implementation of the budget during the period: the reports are made available to the public by the appropriate means within one month as from the end of the period in question. It should be pointed out that there are certain reporting gaps and the information could be more comprehensiveness, but it is deemed partially satisfactory.

(iii) The expenditure fata presented in the public finance reports are, as a general rule, presented but there are some recent reporting gaps and delays, namely for 2012. The General State Accounts (CGE) 2010, which are the first CGE of STP, were presented in July 2013 and have already been published on the web page of the MPF. The Court of Accounts is yet to issue an opinion on the CGE; after it has done so, they will be submitted to the National Assembly for approval. This requirement is assessed as partly satisfied.

(iv) Regarding Procurement and Tender documents, specifications and outcomes of the processes are published by appropriate means and channels.

Of the six key elements, two are not yet available to the public, that is: the external audit reports and Information on resources received by primary service providers. Out of the four elements, two are entirely satisfactory, and one element represents a huge improvement in particular in relation to the presentation of the CGE 2010 and the process for drafting the CGE for 2011 and 2012 respectively. In addition, an improvement is noted in relation to the publication of public competitions and tenders. As 3-4 of the 6 key elements are provided to the public, the indicator merits a score of B, which represents an improvement on the 2009 PEFA assessment in which the indicator was scored C.

C. Budget cycle

PI-11 Orderliness and participation in the annual budget process

PI-11 Orderliness and participation in the annual budget process (M2 scoring methodology)	**2008**	**2012**
	D	**B**
(i) Existence of and adherence to a fixed budget calendar	**D**	**C**
(ii) Clarity/comprehensiveness of instructions on the preparation of budget proposals (budget circular or equivalent) and level of political involvement	**D**	**A**
(iii) Timely budget approval by parliament (in the last three years)	**D**	**C**

A fixed budget calendar exists. However it is necessary to point out that, in practice, there are challenges in relation to adherence to the calendar. Furthermore, the deadline fixed for the Ministries, Departments and Agencies (MDAs) to draft the budget proposal is not always observed. As a general rule, assessing the last two budget formulation processes at least, the MDAs have approximately 4 weeks to draft the proposal after receipt of the budget circular, which includes the budget calendar, and this is too limited.. A "C" has been accorded to this first dimension representing an improvement since the previous assessment.

Instructions on the preparation of budget proposals, which are presented in the budget circular, have improved substantially and currently reflect accepted international practice in terms of the clarity and comprehensiveness required. The circulars indicate budget *ceilings* (*plafonds)* for the MDAs approved at Council of Ministers level. The second dimension is accorded an "A", which is far better than in 2009 when a "D" was accorded to this dimension.

The following table shows the dates of delivery and approval of the State Budget (OGE), in the period 2010-2013. In two of the last three years, namely in 2011 and 2012, parliament approved the State Budget within one month as from the start of the financial year which, according to the PEFA methodology, leads to a "C" for this dimension – an improvement on the assessment made in 2009.

DATES FOR DELIVERY AND APPROVAL OF THE OGE – 2010 TO 2013

2010		**2011**		**2012**		**2013 (XV Gov.)**	
Entry	**Approval**	**Entry**	**Approval**	**Entry**	**Approval**	**Entry**	**Approval**
30/10/2009	19/01/2011	18/11/2010	28/01/2011	31/10/2011	15/12/2011	11/02/2013	14/03/2013

Source: Information forwarded by the AN

A score of "B" for indicator PI-11 is a considerable improvement on the 2009 PEFA assessment when it was accorded a "D" and reflects the particular attention given to the implementation and improvement of the budget process.

PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting

PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting (M2 scoring methodology)	**2008**	**2012**
	D+	**C+**
(i) Drafting of multi-year fiscal forecasts and functional appropriations	**D**	**C**
(ii) Scope and frequency of debt sustainability analysis	**A**	**A**
(iii) Existence of sector-based strategies with calculations of multi-year costs of current and investment expenditure	**D**	**B**
(iv) Connections between investment budgets and estimated forward expenditure	**D**	**D**

This indicator assesses the extent to which multi-year tax forecasts and functional appropriations are prepared. In the first place, it is important to note that STP has a legal and regulatory framework in force which establishes the National Planning System (SNP), ratified in the Constitution of the Republic, Basic National Planning System Law and Decree No. 26/2012, that defines and clarifies the mission, powers and organisational structure of the Directorate-General for Planning of the Ministry of Planning and Development. Under the terms of Decree No. 26/2012 and with particular relevance to the assessment of this indicator, the mission of the Directorate-General for Planning (DGP) is to draft the Medium-Term Fiscal Framework and participate in the drafting of the Medium-Term Expenditure Framework (MTEF) together with the Directorate-General for the Budget (DGO).

In relation to the implementation of the SNP, it is observed that, in the OGE 2011, the documents published do not contain multi-year forecasts, however, some multi-year forecasts exist from 2012. In accordance with the methodology, the years which are assessed are 2011 and 2012, which are the last two complete fiscal years. It should be stressed that the last years are important for multi-year budget planning reform in STP, since the technical preparation work begun in 2009 was completed and the first practical efforts were made to arrive at a multi-year financing programme, according to National Strategy Guidelines for the Reduction of Poverty. It is noteworthy that 2013 is the first year in which the full impact of the efforts can be seen in relation to the multi-year forecasts and the OGE 2013 proposal contains a medium-term fiscal programme, with fiscal forecasts and functional allocations for 2014 and 2015. Although still in its infancy, the implementation of the SNP shows gradual progress with greater impact from the OGE 2013. Owing to the legal and regulatory framework and the systematic, gradual progress of its implementation, this dimension merits a "C", which is an improvement on the "D" accorded in 2009.

Debt sustainability is analysed annually and published and this justifies an “A” for the second dimension – the same as the 2009 assessment.

As far as the existence of sector-based strategies is concerned, it should be pointed out that a methodology was developed for the preparation of medium-term expenditure sector-based frameworks in June 2009. In the second part of 2012, medium-term costed strategies were finalised for the transport, agriculture and fisheries sectors. These sectors are deemed essential by the Poverty Reduction Strategy in order that a positive impact on the alleviation of poverty is felt among the least favoured populations in the short and medium term. In those cases also, reforms are in the midst of consolidation, marking gradual progress and systematic commitment. In 2012, the two sectors represented around 30% of primary expenditure and the availability of medium-term expenditure frameworks in those sectors justifies a “B” for this dimension, an improvement on 2009 when a “D” was accorded.

With regard to the dimension which assesses the links between investment budgets and estimated forward expenditure estimates, further consolidation of the multi-year programming process will strengthen the future link between investment expenditure and future investment cost implications. For the time being, the reform is still in an initial phase of implementation and its impact cannot yet be fully measured. However, the functional classification of the budget – with special focus on the unification of the OGE since 2006 – maintains clear attribution of responsibilities initially shared between the Directorate-General of the Budget (current expenditure) and the Directorate of Planning (investment projects). The score for this dimension remains a “D”, the same as in 2009.

The assessment of indicator PI-12 Multi-year perspective in fiscal planning, expenditure policy and budgeting was accorded a C+ in the 2013 PEFA, an improvement on the assessment of the previous year when it was accorded a D+.

PI-13 Transparency of taxpayer’s obligations and liabilities

PI-13 Transparency of taxpayer’s obligations and liabilities (M2 scoring methodology)	**2008**	**2012**
	B	**B+**
(i) Clarity and comprehensiveness of tax obligations and liabilities	**B**	**B**
(ii) Taxpayers’ access to information on tax obligations and administrative procedures	**B**	**A**
(iii) Existence and functioning of a tax appeal mechanism	**C**	**B**

A legislative framework exists which establishes clarifies and guarantees the transparency of taxpayers’ tax obligations and liabilities in relation to most taxes and customs duties. For these taxes, the legislation is comprehensive and was recently revised to give limited discretionary power to the Directorates of Customs and Tax respectively.

The legal tax framework is defined in the Codes, Laws, Decree-Laws and Orders set out below:
- Law No. 6/2007 Law approving the General Tax Code
- Law No. 7/2007 Law approving the Tax Procedure and Process
- Law No. 10/2009 Corporation Tax Code
- Law No. 11/2009 Personal Income Tax Code
- Law No. 7/ 2008, Investment Code.

This list does not include the regulations which are approved for the vast majority of direct and indirect taxes.

With regard to the customs area, the legislative framework is defined by the Codes, Laws, Decree-Laws and Orders described below:
- Law No. 39/2009 Approves the Customs Code
- Order No. 12/2010 New customs clearance model
- Customs and Associated Customs Tariff Code.

The Secretary-General of the Chamber of Commerce, Industry, Agriculture and Services and the President of the *Câmara dos Despachantes Oficiais* (Chamber of Authorised Customs Clearing Agents) confirm that discretionary power is limited both in the legislative framework and in the application of the law. For dimension i) Clarity and Comprehensiveness of tax obligations, there were no significant changes from the 2008 PEFA assessment resulting in the same score as that of 2013, that is, a B for the first dimension.

Taxpayers have access to information on tax obligations and administrative procedures. All legislation on the tax system, including customs, is published in the *Diário da República*, the official Government Bulletin, which can be obtained at the Directorates of Tax and Customs and other sites. Furthermore, legal changes or updates of taxes and customs tariffs are broadcast on the radio and, occasionally, on television. The tax department implements tax awareness campaigns on the radio and television and holds events within the framework of civic education on obligations and procedures for the fulfilment of tax obligations. A web page exists covering the legislation and regulations in force and communicating the tax obligations. Customs operations are also computerised and reforms have been implemented in the customs area which facilitate and establish customs operations more clearly through the ACYCUDA-Sydonia SYSTEM, above all, electronic completion of the declarations by Customs Clearing Agents.

It is important to stress that the tax authority and, consequently, its collection system has a limited geographical extent, which represents a major constraint in respect of efforts to expand the tax basis as well as initiatives to widen and extend the collection system. Broadening the tax base and the collection network are important factors in order to achieve the overall objectives of the tax administration.

With regard to dimension ii) Taxpayers' access to information on tax obligations and administrative procedures, it is noted that all legislation and most regulations are available on the web page of the Ministry of Planning and Finance – representing an improvement on the assessment made in 2008 and resulting in an increase in the score for the dimension from B to A for the second dimension.

A tax complaint mechanism is operational and includes four levels of complaint and appeal in the area of Taxes under the terms of current legislation. It is considered that the appointment of a Judge in 2011 has contributed towards disentangling some constraining factors that resulted in considerable delays in the assessment of appeals. Furthermore, this has contributed to strengthen the necessary independence and due transparency of processes. In the case of the third dimension (iii) Existence and functioning of an appeal mechanism, a "B" is accorded in 2013, an improvement on the "C" accorded in 2009.

Owing to these factors, the assessment of the performance of this indicator improved from "B" in 2009 to "B+" in 2013.

PI-14 Effectiveness of measures for taxpayer registration and tax assessment

PI-14 Effectiveness of measures for taxpayer registration and tax assessment (M2 scoring methodology)	**2008**	**2012**
	B	**B**
(i) Control in taxpayer registration system	**B**	**B**
(ii) Effectiveness of penalties for noncompliance with registration and declaration obligations	**C**	**C**
(iii) Planning and monitoring of tax audit and fraud investigation programmes	**B**	**B**

For dimension i) Control in the taxpayer registration system, it is established that a complete tax payer register exists with a unique Tax Identification Number (NIF). From the entry into force of the new version of ASYCUDA World, which covers the payments phase, the need arose to register the NIF also in this tool and an ASYCUDA World reference number is attributed to the NIF. A replica of the tax payer register was incorporated into the ASUCUDA World to enable controls of the NIFs. This "duplication" or replica of the NIF creates the need to ensure that changes made at NIF register level are also made to the NIFs captured and maintained in ASYCUDA World.

This practice, where ASYCUDA World, currently, registers and the NIF is not fully in line with the principle of register unity In order to ensure the quality and integrity of the data (NIF), it is fundamental to create NIF register control and maintenance routines between the taxpayer register (NIF) and the NIFs registered in Asycuda World. Therefore, it is also necessary to establish a systematic routine of reconciliation between the NIF register managed by the Directorate-General of Tax and the NIFs registered in the ASYCUDA, managed by the Directorate-General of Customs. . As for interlinks and the exchange of information with other registers, the NIF is yet to carry out these reconciliations systematically and comprehensively. One example is the use of the NIF to open bank accounts. Within the framework of the Single Service Point System, there are plans to introduce electronic services with greater integration and interlinking between the different services and, consequently, between the different registers. These plans are still in the initial stages of implementation. Apart from the aspects indicated there were no major changes to this dimension since the PEFA 2009 assessment, resulting in the same score for 2013, that is, a B for the first dimension.

The legal and regulatory framework establishes penalties and fines in the case of tax or customs duty evasion. With regard to the customs duty collection system, the actors express greater satisfaction than in the case of tax. Within the tax administration the structure, level and administration of penalties require some adjustments to ensure greater compliance of the system. A score of “C” is accorded to this dimension, the same as in 2009.

Planning and monitoring of audits in the customs area are made and some first attempts of applying risk assessment principles have been carried out. However, there are still gaps in their implementation and the capacity and skills need to be further strengthened for risk based approaches to be implemented in a fully satisfactory manner. However, a positive performance trend has been noted in that area since 2009, a limited number of audits have been carried out and some measures taken on the basis of their findings. In terms of taxes, it is not possible to confirm the existence of audit plans based on an effective risk assessment despite audits having been carried out with some regularity. On the basis of the information provided, the assessment score in 2009 is maintained, that is, a “B” is accorded to this dimension in the PEFA 2013. Likewise and with justification, a “B” is maintained for indicator PI-14 in 2013.

PI-15 Effectiveness in the collection of tax payments

PI-15 Effectiveness in the collection of tax payments (M1 scoring methodology)	**2008**	**2012**
	D+	**D+**
(i) Collection ratio for gross tax arrears collected, that is, the percentage of tax arrears at the start of the fiscal year collected during the same fiscal year (average of last two fiscal years)	**D**	**D**
(ii) Effectiveness of transfer of tax collections to the Treasury by the tax administration	**A**	**A**
(iii) Frequency of complete accounts reconciliation between assessments, collections, registration of arrears and tax revenue by the Treasury	**B**	**B**

The first dimension assesses the *stock* of debt resulting from failure to pay taxes and the efficiency of their collection. The indicator measures the proportion of gross tax arrears collected, that is, the percentage of tax arrears at the start of the fiscal year collected during the same fiscal year. These numbers are presented in the following table.

PROPORTION OF GROSS TAX ARREARS COLLECTED

	2011	2012	Projection 2013
Initial situation	92,863,037,677.76	105,921,323,677.40	153,403,273,922.80
New arrears	37,139,948,816.64	57,471,047,447.00	70,458,840,646.00
Regularisations	24,081,662,817.00	9,989,097,201.60	18,456,029,196.00
Balance	105,921,323,677.40	153,403,273,922.80	205,406,085,372.80
Proportion of gross arrears collected	26%	9%	12%
Arrears as percentage of annual collection	13%	15%	ND

Source: Directorate of Tax, MPF

The average over the last two fiscal years, in this case, 2011 and 2013, is well below the 60% target set by the PEFA methodology to merit a score above "D". It is noted that debt is being accumulated. Part of this debt may be related to weak routines for maintenance of the register of taxpayers. The debt from payments of tax arrears represents a considerable percentage in relation to the taxes collected per annum. For 2011, the debt represented 13% of the tax revenue collected and, for 2012, 15% of the revenue collected confirming the major challenges faced by the tax collection area and the need to improve the register of taxpayers.

With regard to the effectiveness of the transfer of taxes and duties collected by the tax authority to the Treasury, there are two different routes. With respect to customs duties, payments are made into the International Bank of São Tome and Príncipe (BISTP) and deposited in the revenue account within the framework of the Single Treasury Account (CUT) within 24 hours, under the terms of the agreement signed between the Central Bank, the Treasury and the BISTP, the latter being a commercial bank. Although there are cases when the transfer take longer than 24 hours, there are monitoring mechanisms under this agreement to ensure that the conditions established and agreed by those institutions are met. With regard to taxes, all payments are made directly into the revenue account within the framework of the Single Treasury Account (CUT). The performance complies fully with good practice and the criteria established by the PEFA methodology and an "A" is accorded to this dimension.

Based on discussions and the documentation provided, it was possible to confirm that systematic routines exist for accounts reconciliation between assessments, collections, registration of arrears and tax revenue by the Treasury. In general, these reconciliations are carried out quarterly and a "B" is accorded to this PEFA 2013 dimension – as in 2009.

In line with the scoring methodology applied to this indicator (M1) and despite a good performance in two of the three dimensions, given the existence of challenges in debt collection, a D+ is accorded to indicator PI-15, which is the same outcome as the previous assessment.

PI-16 Predictability in the availability of funds for commitment of expenditure

PI-16 Predictability in the availability of funds for commitment of expenditure (M1 scoring methodology)	**2008**	**2012**
	D+	**C+**
(i) Extent to which cash flows are forecast and monitored	**D**	**B**
(ii) Reliability and horizon of periodic in-year information to MDAs on ceilings for expenditure	**D**	**C**
(iii) Frequency and transparency of adjustments to budget allocations which are decided above the level of management of Ministries, Departments and Agencies	**C**	**C**

One element of PFM reform with an already visible impact in the outcomes of this PEFA assessment is the reform within the treasury unit related to liquidity and cash management. Elements include the creation of a Single Treasury Account (CUT) structure administered by the Central Bank of STP, the reduction of accounts outside the CUT structure and greater control over bank accounts and deposits in commercial banks.

These elements enable access to liquidity and cash that previously was deposited in numerous bank accounts in commercial banks. Although some areas still require improvement, reforms are ongoing and the progress observed in this area is commendable, that is, despite some shortcomings, cash flows are being monitored. The treasury presents a cash flow forecast ”treasury plan” at the start of the fiscal year and the plan is updated at least quarterly. However this routine and the up-dates could benefit from being more systematic and subject to a more thorough analysis and currently liquidity and cash management has a short-term focus. This fact is, at least in part, a result of the precarious situation with respect to liquidity. However, the performance justifies a “B” for this dimension, a substantial improvement on the PEFA 2009 in which a “D” was extended.

With regard to the reliability and horizon of in-year information to the Ministries, Departments and Agencies on ceilings fro expenditure, the MDAs receive monthly *plafonds* within which they can commit and request payments. These *plafonds* are established partially in view of the needs of the Budget Entities (UGs) and mainly in view of the availability of cash/liquid assets. These cash management mechanisms implemented through SAFE-e are contributory factors to an improvement in this dimension in comparison with the previous assessment and a “C” is accorded in 2013, compared with a “D” in 2009.

Adjustment to budget allocations above the level of management of the Ministries, Departments and Agencies, that is, those which alter the functional classification of expenditure, are regulated by Article 35 of Law No. 3/2007 on the Integrated System of State Finance Management (*Lei do SAFE*), which establishes that these alterations are the responsibility of the National Assembly. The legal and regulatory framework has been stable since the last PEFA assessment. In practice and in line with the discretionary power of the executive, adjustments to budget allocations are generally made without presentation of additional laws (supplementary bills) to the National Assembly. A "C" is accorded to this dimension, which is the same result as in 2009.

The PEFA 2013 assessment shows improvements in performance in relation to the predictability of available funds for expenditure commitments, therefore, a score of C+ is accorded to indicator PI-16 compared to a D+ in 2009.

PI-17 Recording and management of cash balances, debt and guarantees

PI-17 Recording and management of cash balances, debt and guarantees (M2 scoring methodology)	**2008**	**2012**
	D+	**C**
(i) Quality of debt data recording and reporting	**C**	**C**
(ii) Extent of consolidation of the government's cash balances	**D**	**B**
(iii) System for contracting loans and issuance of guarantees	**D**	**D**

The external public debt is recorded by the Directorate of Treasury, which has a specific tool for this purpose, the CS-DRMS v1.2. Guarantees are not recorded. The public debt records of the Central Administration are complete and updated and quarterly reports are presented, which include information on public debt transactions and service without mention of the *stock*. The total debt information is reconciled on an annual basis only, at which time a report is published containing the *stock* information. For this first dimension, a classification of "C" was accorded, the same as in 2009.

With regard to the level of consolidation of cash balances, the implementation of a Single Treasury Account (CUT), the reforms implemented within the context of the treasury unit referred to above (indicator PI 16) and the control of bank accounts outside the CUT hierarchy have increased the level of consolidation of the liquidity/cash substantially. Some extra-budgetary funds are not captured, and some accounts remain unconsolidated, but, in general, the vast majority of funds form part of the consolidated cash balances. The timely deposit of the tax revenue also represents a key element with a major impact on performance. In line with the PEFA methodology, the score for the dimension improved substantially from a "D" in 2009 to a "B" in 2013 for this dimension.

Based on the information provided, no system is currently in place for the issuance of guarantees. Furthermore, there are no systematic routines for the management and monitoring of guarantees and a sufficient register does not exist. A score of “D” is accorded to this dimension, an assessment equal to that of 2009. The score for indicator PI-17 is “C” in 2013 compared with D+ in the PEFA 2009 assessment, representing an improvement owing to the substantial improvements in dimension ii) degree of consolidation of liquid assets.

PI-18 Effectiveness of payroll controls

PI-18 Effectiveness of payroll controls (M1 scoring methodology)	**2008** **D**	**2012** **D+**
(i) Degree of integration and reconciliation between staff records and payroll data	**D**	**C**
(ii) Timeliness of changes to personnel records and the payroll	**D**	**C**
(iii) Internal controls of changes to personnel records and the payroll.	**D**	**C**
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers.	**D**	**D**

We established that staff records and payroll data are reconciled but there is no integration as, according to the information obtained, a central Databank (BD) already exists but is not yet operational and needs to begin a test phase.

Nevertheless, we were also able to establish that the Directorate-General for the Budget reconciles the monthly staff sheets received from the UG (DAFs) with the payrolls issued by the DGO but that the time between a change to the staff situation and knowledge of that change by the DGO, which processes the wages, can be up to 3 months, according to information received. Consequently, there are delays and it can take more than three months for the change to be reflected in the respective wage. Likewise staff record maintenance routines are not subject to strict monthly control with a comparison between the payroll paid and the staff record – for this reason, a "C" is accorded to the first dimension. The time taken to make a change – up to three months, justifies the award of a "C" for the second dimension also. Both dimensions show improvements compared with 2009 when a "D" was accorded in both cases.

Some controls exist in relation to the payroll but they are not systematic or entirely sufficient to guarantee the integrity of the transactions. A "C" is accorded to the third dimension, an improvement in relation to 2009. Furthermore, audits are not carried out unless they are included in the IGF's activities plan and a "D" is maintained for this dimension. Overall, a "D+" is justified for indicator PI-18 in the PEFA 2013. The improvement in the score for this indicator is justified mainly by greater access to information in this assessment.

PI -19 Transparency, competition and complaints mechanism in procurement

PI-19 Transparency, competition and complaints mechanism in procurement (M2 assessment methodology)	**2008**	**2012**
	C+	**C+**
(i) Transparency, comprehensiveness and competition in the legal and regulatory framework	B	B
(ii) Use of competitive procurement methods	C	C
(iii) Public access to reliable and timely procurement information	N.A.	C
iv) Existence of an independent administrative procurement complaints system	C	C

N.A.: Not applicable given that the indicator assessed was revise in the meantime and this dimension did not exist at the time of the previous PEFA.

The framework public contracts law, Law No. 8/2009, is sufficiently complete and detailed and, in addition to considering and defining the different types of procedures, establishes the Office for Coordination and Monitoring of Public Contracts and Tenders System (COSSIL) as the unit responsible for the procedures, that is, for control of legality.

Powers to control legality and the legal consequences of failing to comply with legislation on tenders are provided for in clause No. 2, Art. 5 and clause No. 3, Art. 7 of Law 8/2009, respectively, whereby the first establishes that the COSSIL may suspend, cancel or invalidate a specific contractual procedure that does not comply with the applicable legal standards and the second provides that the effectiveness of the acts and contracts of the State is conditional upon verification of the legality of these acts (which is exempt from the requirement of prior approval by the TC by dint of said Art. 7).

However, the fact that the Law does not establish clearly the procedural phase during which this verification of the legality must take place leads to flaws in its practical application, above all when that failure leads to its inefficacy (No. 3, Art 7º), as well as a lack of clarity in respect of the responsibilities and powers of each of the actors (contracting entity, UGEL and COSSIL etc.) in each of the phases. This was confirmed when one DAF (Agriculture) pointed out that it considers that it is not obliged to submit authorisation for the assessment of proceedings to COSSIL (sic) in each phase but only in the contractual conclusion phase. Therefore, COSSIL's assessment of the legality is postponed to the last phase, the contracting phase. For their part, the remaining DAFs send the assessment of the proceedings and respective initial procedural documents for authorisation from COSSIL.

In this way, said lack of legal clarity which can result in different interpretations and actions by the DAFs, as we established, cause some weakness in respect of the general system of tenders and contracting and, consequently, implementation and control.

This situation is undesirable as it causes a lack of uniformity of the proceedings which has to be corrected, therefore, with suitable explanations. However, in view of the assessment criteria established by the PEFA methodology, a “B” is accorded to this first dimension, namely for transparency, comprehensiveness and competition in the legal and regulatory framework, since it adopts the principle of free competition, accessibility to the public and it is applied to all acquisitions using public funds and categorises the situations in which less competitive methods than a public tender may be used.

Nevertheless, COSSIL does follow up and monitor proceedings, establishing the corresponding register by area (economic, social and institutional) and entity and, within these, by type of procedure.

In accordance with the data forwarded by COSSIL for the three years, 2010 to 2012, and after aggregation by us, it emerged that 815 procedures were carried out, 75% being deemed small (small tenders at 25% and direct limited tendering procedures at 29%), which is consistent with the country’s dimension and the level of development of its economy.

In this way, there is no conflict with the legally established principle of competition since the legislative framework, correctly, provides for less competitive mechanisms which are associated to lower value acquisitions and in line with the country’s actual situation. Overall, a “C” is accorded to this dimension.

PUBLIC CONTRACT PROCEDURES – 2010, 2011 AND 2012

Procedure	2010		2011		2012		TOTAL	
	Nº	%	Nº	%	Nº	%	Nº	%
CPD	115	59	100	38	60	39	372	46
CPN	40	21	35	13	39	25	148	18
CPI	18	9	19	7	7	5	60	7
AD	22	11	111	42	49	32	235	29
TOTAL	**195**	**100**	**265**	**100**	**155**	**100**	**815**	**100**

Source: COSSIL

LEGEND:
CPD – small tender
CPN – national public tender
CPI – International Public tender
AD – direct limited tendering procedure

In relation to the third dimension, one important aspect assessed within the context of this indicator is public access to reliable, timely information on tenders these are published in edicts, on COSSIL’s web page and broadcast on the radio and television, which enables greater public access to the procedures taking place.

With regard to the fourth dimension, it should be pointed out that within the legal framework Art. 6 thereof establishes an appeal body which complies with some of the criteria established by the PEFA methodology defined in accordance with good practice, such as the principle of separation of functions. On checking this fact, we observed that the members of the appeal body are not involved in the tendering processes and, therefore, there are no conflicts of interest. In addition, the members comprising the appeal body have the necessary capacity and experience within the framework of public acquisitions. Furthermore, the private sector is also represented in that body so contributing to greater transparency of the process. Nevertheless, there are some shortcomings in relation to good practice, namely the fact that its members are not yet formally appointed and, consequently, a “C” is accorded to this dimension.

Overall, despite the entry into force of said Law, we did not register a significant change probably owing to the fact that, as stated in the previous PEFA report and reflected in the assessment attributed then; the systems present at the time prevented a good operational level, which was not more comprehensive owing to the aforesaid reasons (sic). A score of “C+” is suitable for indicator PI-19 in 2013, as per 2009.

PI-20 Effectiveness of internal controls for non-salary expenditure

PI-20 Effectiveness of internal controls for non-salary expenditure (M1 scoring methodology)	**2008**	**2012**
	D+	**C+**
(i) Effectiveness of expenditure commitment control	**C**	**C**
(ii) Comprehensiveness, relevance and understanding of other internal control procedures	**D**	**C**
(iii) Degree of compliance with rules for processing and recording transactions	**C**	**C**

As far as non-salary expenditure is concerned, the transition from the Safinho system to the SAFE-e system was noted, this last one being more complete than the former but, as we established, it is not yet fully operational, therefore, control was not carried out using this system exclusively. The controls made are essentially via the management of net assets realised on a monthly basis by the General Treasury Department, which represents a need for change in this area. There are a number of deficiencies in the control of commitments, therefore, a “C” is granted to this dimension indicating that no considerable improvements have yet been made in this area since the previous assessment.

With regard to the comprehensiveness, relevance and understanding of other internal control procedures it should be pointed out that initiatives are in the early stages, demonstrating motivation to improve internal control, but a vision or systematic approach does not yet exist. One positive example is the monitoring of State debts with major service providers, namely (water, energy and telecommunications), which are already identified and have begun to be paid; a payment plan exists and has been adhered to. For these reasons, a “C” is accorded to this dimension.

With regard to the processing and recording of transactions, these are carried out in SAFE-e by the DFAs but not by the UGs with financial autonomy, in addition, the assessments relating to different expenditure cycle phases are all carried out simultaneously since the DAFs are not online and it is necessary to go to the Ministry of Finance and Planning building, in an appropriate location for this purpose, to carry out said assessments on the system. Furthermore, it should be recorded here that some information already exists on earmarked expenditure (marked with a "Q" in SAFE-e).

As for other internal control procedures, it is pointed out that the Directorate-General for Assets already has an inventory of the vehicles allocated by Ministry, in Excel format, recording vehicle type, maintenance condition and decommissioning. Despite the register being comprehensive, a failure to update the data was noted as the information is only known by this DG when it is forwarded thereto. It also has a databank where movable property is registered (although it is not connected to SAFE-e and, consequently, this system is yet to be completed with regard to Assets) and this is still incomplete (sic).

Immovable property is not registered, the respective legal and operating framework still being in the process of approval. Based on these facts, a "C" is accorded to this third dimension, which means a score of "C" for indicator PI-20, an improvement in relation to the previous assessment of "D plus".

PI-21 Effectiveness of internal audit

PI-21 Effectiveness of internal audit (M1 scoring methodology)	**2008**	**2012**
	D+	**C+**
(i) Coverage and quality of the internal audit function	**D**	**B**
(ii) Frequency and distribution of reports	**B**	**B**
(iii) Extent of management to internal audit findings	**D**	**C**

The audits carried out by the IGF cover thematic areas and, within these, the financial requirements and the regularity and legality of the transactions are checked – as yet there is no evolution towards the benchmarking of compliance with the criteria of economy, effectiveness and efficiency, with the result that this dimension scores a "B".

As for the frequency and distribution of reports, in accordance with the Report of Activities and Balance of Activities, which are documents considered to be management instruments, no change was registered between the last PEFA year and the current one and a "B" is maintained for this dimension.

With regard to the implementation of recommendations by the audited entities, the IGF has started to perform follow-up audits on the recommendations, that is, to monitor the level of respective implementation, although the implementation still quite low. This circumstance – the implementation of recommendations - is recorded as being an effective improvement and, therefore, a "C" is accorded to this dimension compared with a "D" in the last assessment. Overall, a score of C+ is accorded to indicator PI-21 in this PEFA assessment.

PI-22 Timeliness and regularity of accounts reconciliation

PI-22 Timeliness and regularity of accounts reconciliation (M1 scoring methodology)	**2008**	**2012**
	D	**C**
(i) Regularity of bank reconciliations	**D**	**C**
(ii) Regularity of reconciliation and clearance of suspense accounts and advances	**D**	**C**

A Decree on the Treasury Unit was adopted as well as a Decree regulating the Treasury Accounts, be they commercial or relating to external financing are in the process of implementation. To this end, we were informed that pursuant to the said decree, the accounts existing in commercial banks were reduced.

This circumstance facilitates the reconciliation carried out by the Treasury on the basis of the bank statements received essentially from the Central Bank, although there are still delays in those reconciliations and their level of evidence is limited. There are various reconciliation levels and reconciliations were noted on the basis of bank orders at transactional level and complete reconciliations which, as a general rule, are carried out quarterly at aggregate level. The implementation of more explicit, systematic routines with the allocation of responsibility of the UGs and Treasury respectively would be beneficial and would contribute to greater control. In the 2013 assessment, a "C" is accorded to this dimension, the same as in 2009.

The actual information on treasury operations and other advances continues to be deficient but the Treasury has improved the management of operational accounts, including suspense accounts, considerably. Within the framework of the presentation of the General State Accounts, more consistent procedures and routines relating to reconciliations and the closing of suspense accounts and open transactions have been implemented. For this reason, a "C" is accorded in 2013, an improvement on the "D" accorded in 2009. It is important to point out the need to establish more transparent, systematic reconciliation routines. Overall a "C" is accorded to indicator PI-22 in 2013.

PI-23 Availability of information on resources received by service delivery units

PI-3 Availability of information on resources received by service delivery units (M1 scoring methodology)	**2008**	**2012**
	D	**C**
(i) Collection and processing of information to establish the resources which were actually received (in cash or kind) by the service delivery units in the field (focusing on primary schools and primary health centres) in relation to	**D**	**C**

the resources made available		

The SAFE-e system already has information relating to the transfers made to Budget Entities (UGs). Based on a sample of health, agriculture and fisheries sectors, we noted that the service delivery units are informed via internal processes managed by the Directorate of Financial Administration (DAF) of the respective Ministry and these are subject to the same budget regulations, namely regarding the availability of financial resources.

The actual information on the revenue itself continues to be deficient and, apart from that earmarked (15% for wages and 20% for acquisitions) the existing information regarding the revenue collected by the bodies is incomplete. It is important to highlight that some taxes are paid directly to the Treasury which reduces this problem. However, we did not obtain information regarding control of procurement and stocks. With regard to the assessment made and verified, a "C" is accorded to indicator PI-23 in 2013, an improvement which is justified by greater access to relevant information in this assessment.

PI-24 Quality and timeliness of in-year budget reports

PI-24 Quality and timeliness of in-year budget reports (M1 scoring methodology)	**2008**	**2012**
	D+	**C**
(i) Scope of reports in terms of coverage and compatibility with budget estimates.	**D**	**C**
(ii) Timeliness of the issue of reports	**B**	**C**
(iii) Quality of information	**C**	**C**

Within the context of São Tomé, Quarterly Reports (RT), known as public finance reports, contain information on the revenue, expenditure and external debt, an improvement having been noted in the last report, that of the first half of 2013, in respect of the details of the information. Compared with other countries and good practices, the RTs are analytical and provide an interesting, relevant view of the country's economic situation and implementation of the budget but they do not present (in annex) data on budget expenditure by economic, administrative or other classification. This detailed information is important for monitoring purposes and would give a more comprehensive picture of the implementation of the budget and, consequently, be a basis for strengthened financial management and control. However, and in respect of the improvement noted, a level of comparison with that budgeted already exists and explanations are put forward justifying the deviations detected. Apart from this, it is noted that revenue from entities with financial autonomy is not included.

It should also be pointed out that a framework for the internal and external situation exists and explanations are given for some of the deviations detected, as stated, but the fact that comprehensiveness is not complete is reflected in the final assessment. For this reason, a "C" is accorded to this first dimension.

As for its periodicity, there was some delay in the issue of these quarterly reports in 2012 which was explained, in relation to 2012, by the transition from Safinho to the SAFE-e system in the middle of that year and, in relation to 2013, by the OGE only having been approved in March. For this reason, a “C” is accorded to this dimension, compared with a “B” in the previous assessment.

In addition no significant changes were noted since the last PEFA despite the implementation of the SAFE-e system (tests and production) given that it is still in the initial roll-out phase and has a more restricted functional scope than aimed at in future SAFE-e versions. By way of example, we refer to the module relating to Asset management that is not yet operational (and the existing records are incipient), rendering an analysis impossible from this point of view. With regard to the quality of the reports and in the monitoring of the aspects referred to above, a “C” is accorded in relation to the quality of the quarterly reports which justifies a score of “C” for indicator PI-24, an improvement compared with the “D+” accorded in 2009. It should be highlighted that some alignments need to be carried out in relation to the concepts applied in the current version of SAFE-e regarding the “payment” concept. This situation is mentioned above in relation to PI-4 and discussed in more depth in the assessment of indicator PI-25 below.

PI-25 Quality and timeliness of annual financial statements

PI-25 Quality and timeliness of annual financial statements(M1 scoring methodology)	**2008**	**2012**
	D	**D+**
(i) Level of coverage of financial statements	**D**	**C**
(ii) Timeliness of submission of financial statements	**D**	**D**
(iii) Accounting standards used	**D**	**C**

The single set of General State Accounts delivered to date is that of 2010 and, at the time of this assessment, it was still awaiting the opinion of the Court of Accounts. It should be pointed out that, in accordance with the information provided, the Accounts relating to 2011 and 2012 are yet to be drawn up.

Analyses of the single accounts known are carried out from various angles, namely, economic, organic and source of financing etc. But as a result of the lack of information from entities with administrative, financial and asset management autonomy (autonomous regional government, chambers, public corporations and institutes), the level of coverage is restricted essentially to the central administration, although already with some references to the entities referred to above, resulting from the collection of information by DC experts. A “C” is accorded to this dimension in 2013, reflecting an improvement since 2009.

With regard to the timeliness of the reports and despite the commitment in relation to CGE 2010, a score of "D" only is justified in this assessment, equal to that of the previous assessment.

Regarding the accounting standards used, these are impaired by the fact that the SAFE-e system does not yet have the necessary capacity to respond to the production of complete information as set out above and as results from the analysis of other indicators.

As a positive aspect, we should point out the existence of a "Public Accounting Manual applied to SAFE-e", approved by Decree No. 44/2012, of 28/Dec, which aims to define the accounting standards supporting the SAFE-e application design and, consequently, the way in which it should be used with regard to inputs.

However, we found that the conceptual model underlying this manual and, consequently, the SAFE-e computer application that supports the presentation of accounts, in addition to the implementation of the budget, is not entirely in line with the conceptual model defined in Law No. 3/2007 (*Lei SAFE*), at least in one fundamental point.

This inconsistency resides in the notion of "payment" which, in accordance with paragraph c), clause No. 1, Art. 29 of the said Law SAFE encompasses the actual "delivery of the amount to the beneficiary of the expense document" and in said Manual, No. 3, paragraph of point 9 states that "in SAFE-e, the payment of a liability does not represent the actual delivery of the financial values to the supplier."

This discrepancy, as well as being undesirable, legally dubious (although the *Lei SAFE* prevails as it is a Law and, therefore, hierarchically superior to the Decree which approves the Manual) and weakening the conceptual model, has significant, serious practical consequences, regarding budget management and the presentation of accounts, particularly in the CGE. Therefore, the question remains as to what will be entered in the payments column of the CGE statements being drafted (CGE 2010 did not suffer from this problem as it was still drawn up on the basis of Safino): payments as defined in the Manual, that is, mere payment requests, or payments as defined in the *Lei SAFE*, that is, actual payments?

If the first, then, it is not known how much was actually paid and, consequently, it is not known how much actual debt exists. Furthermore, if this is the case, it will not be legitimate to compare the authorisation with the payment, as was carried out in the DGE, as this is not an actual payment. This results in the need to revise these concepts and, consequently, the practical application thereof.

Overall and for all the reasons set out above, full compliance with Art. 59 (Structure of the General State Accounts) and 60 (Account of Autonomous Institutions and Bodies) of the *Lei SAFE* is not taking place. This situation leads to a "C" for the dimension which assesses the accounting standards despite many improvements in that area being noted. The indicator PI-25 is accorded a score of "D+" in the PEFA 2013 assessment, compared with a "D" in 2009.

PI-26 Scope, nature and follow-up of external audit

PI-26 Scope, nature and follow-up of external audit (M1 scoring methodology)	**2008**	**2012**
	D	**C**
(i) Scope /nature of audit performed (including adherence to auditing standards)	**D**	**B**
(ii) Timeliness of submission of audit reports to the National Assembly	**D**	**C**
(iii) Evidence of follow-up	**D**	**C**

The audit reports drafted by the TC focus on thematic areas and cover a set of entities of different legal types, namely, public corporations,. For this purpose, international auditing standards are applied, particularly those of INTOSAI, and the checks carried out demonstrate a good level of comprehensiveness and detail duly supported by relevant evidence. With regard to the opinion on the General State Accounts, only those of 2010 were submitted for said opinion, and this has yet to be issued; consequently, these Accounts have yet to be submitted for Parliamentary approval, as legally defined.

However, scarcity of human and financial resources represent a constraint in the implementation of the plan of activities and, as a result limit the effectiveness of different functions which the TC is legally obliged to carry out.

Furthermore, it is noted that from strictly financial audits that focus more on the legality and regularity of operations the emphasis is moving towards the approach is evolving more towards thematic audits with greater emphasis on the criteria of economy, effectiveness and efficiency (sic). Therefore, a “B” is accorded to this first dimension.

With regard to the submission of audit reports to the National Assembly, we were informed by the TC and 2nd Committee of the National Assembly that these are not submitted to Parliament, said Committee having specified further that the only report given to the Assembly was in May 2011.

Nevertheless, this is not a legal obligation (and is not stipulated in Law 3/2007 – SAFE or Law No. 3/99 – LO of the TC), as detailed further in draft indicator 28, however, clause No. 4, Art. 10 of the Internal Regulations of the Court of Accounts, published in DR No. 15 of 27/Oct/2003 stipulates the possibility of the National Assembly making that request and, under the terms of Art. 70 of said Regulations, various modalities of institutional cooperation are provided for which have not been implemented to a great extent but would enable better supervision by the National Assembly.

Furthermore, under the terms of Art. 79 of said Regulations, the TC drafts a Report of Activities and Accounts which it sends for publication in the DR, and to the President of the Republic and the National Assembly. For 2012, we found that these obligations were all met as well as the content of the respective report which presents a satisfactory degree of detail and is accompanied by an opinion of an external auditor. Consequently a “C” is accorded to the second dimension.

Mechanisms exist to respond and follow up on the observations and findings of the audits but there is no evidence of the effectiveness of this mechanism, therefore, a “C” is accorded to this dimension.

Overall a score of “C” is accorded to this indicator PI-26 in the 2013 assessment, a better result than in 2009, justified by access to more information and the broader assessment of the existing audit reports.

PI-27 Legislative scrutiny of the annual budget law

PI-27 Legislative scrutiny of the annual budget law (M1 scoring methodology)	**2008**	**2012**
	D+	**B+**
(i) Objectives of the National Assembly’s scrutiny	**B**	**A**
(ii) Degree to which the National Assembly’s procedures are well-defined and respected	**A**	**A**
(iii) Adequacy of time for the National Assembly to respond to the budget proposals (detailed estimates and, where applicable, proposals on macro-fiscal aggregates in the initial part of the budget preparation cycle) (time permitted in practice for all combined phases)	**B**	**B**
(iv) Rules for in-year amendments to the budget without prior approval of the National Assembly	**D**	**B**

With reference to the improvements in the comprehensiveness of the budget documents referred to in the assessment of indicator PI-6 above, the analysis of the bill proposed for the Annual State Budget (OGE) includes the fiscal policy, a diagnosis of the economic climate and, within the medium-term fiscal framework, the macroeconomic policy to be implemented, the priorities and main goals of the investments policy and details of expenditure and revenue (as presented in the draft OGE). In accordance with the methodology, an “A” is awarded for this dimension, an improvement on the “B” of the 2009 PEFA for this first dimension.

The procedures for legislative scrutiny are well-established. The Ministry of Planning and Finance submits the annual budget proposal to the National Assembly. Within the Assembly, the budget proposal is distributed to parliamentary groups and political parties with parliamentary seats and to the different Parliamentary Committees. The 2nd Committee of the National Assembly (2nd Committee) plays a central role in analysing, reviewing and negotiating changes with the Minister for Planning and Finance, at the same time as the different Committees, in accordance with their competence, analyse the bill, convening members of the Government if necessary. The 2nd Committee, uniting the opinions of the different committees, drafts an opinion which is then presented at the Plenary Session of the

National Assembly, during which the latter discusses the draft budget in general. The OGE Bill, in particular, is discussed by the 2nd Committee and, once debated and approved, is re-submitted to the Plenary Session for final approval. Therefore, the process of analysis of the draft budget by the National Assembly is developed and in line with international standards with regard to scope and procedures, a score of "A" being accorded to dimension (ii) of the indicator, as per the 2009 assessment.

The schedule for approval of the OGE is not always respected mainly due to political transitions and government instability, which have characterised the country. Therefore, for the last 4 years, the dates of delivery of the OGE by the Government and approval by the National Assembly were as follows:

DELIVERY DATES AND APPROVAL OF THE OGE – 2010 TO 2013

2010		2011		2012		2013 (XV Gov.)	
Entry	Approval	Entry	Approval	Entry	Approval	Entry	Approval
30/10/2009	19/01/2011	18/11/2010	28/01/2011	31/10/2011	15/12/2011	11/02/2013	14/03/2013

Source: Information forwarded by the National Assembly

NOTE: With respect to 2013, the XIV Constitutional Government received the OGE on 15/11/2012, although it has not been approved given that the Government ceased office in the meantime.

Under the terms of Art. 24 of the *Lei SAFE*, the OGE must be presented by 30 September, however, it is noted that this deadline is not met and, as a rule it is presented one month later, for the above-mentioned reasons. Consequently the deadline for approval of the OGE by the National Assembly by 15 December, as provided for in Art. 25 of that Law, is also not met, with the exception of 2012; this would only be mandatory if, as specified by the same Art. 25, the deadline for delivery were met. A "B" is maintained for this third dimension in 2013.

Finally, although paragraph e), Art. 44 of Law No. 3/2007 allows the transmission of the Quarterly Reports to the National Assembly when it stipulates the drafting of *"periodic information reports to be presented by the Government to the National Assembly"*, these are not forwarded and they do not accompany the implementation of the budget.

No supplementary laws were submitted to the National Assembly. There is a clear legal and regulatory framework within the context of the Law No. 3/2007 and the OGE record the powers of the Government, MPF and Ministries respectively in relation to re-allocation – this gives a substantial discretionary margin to the Government and, consequently a "B" is accorded to this fourth dimension, a better result than in 2009, mainly owing to greater access to information. The indicator scores a "B+" in 2013 compared with a "D+" in 2009.

PI-28 Legislative scrutiny of external audit reports

PI-28 Legislative scrutiny of external audit reports (M1 scoring methodology)	**2008**	**2012**
	D	**D**
(i) Timeliness of examination of audit reports received by the National Assembly (for reports received in the last three years)	**D**	**D**
(ii) Extent of hearings on key findings undertaken by legislature	**D**	**D**
(iii) Follow-up evidence	**D**	**D**

It was confirmed in writing that the National Assembly does not on a systematic basis receive the external audit reports. This was confirmed to us by this Court. However, this is not a legal obligation and Law 3/2007 – SAFE or in Law No. 3/99 – LO of the TC), clause No. 4, Art. 10 of the Internal Regulations of the Court of Accounts, published in DR No. 15 of 27/Oct/2003, establishes that the National Assembly can make requests. However, it should be remembered that this provision has not been put into practice, but if it were, it would permit greater scrutiny by the National Assembly. Therefore, it is concluded that a custom of proposing recommendations by Parliament does not exist. As no external audit reports were submitted to the Assembly or followed up, no score other than “D” is merited for dimension or indicator, the same result as in 2009.

Donor practices

D1 Predictability of Direct Budget Support

D-1 Predictability of Direct Budget Support (M1 scoring methodology)	**2008**	**2012**
	NP	**NP**
(i) Annual deviation of actual budget from the forecast provided by donor agencies at least six weeks prior to the government submitting its budget proposals to the National Assembly	**NP**	**NP**
(ii) Timeliness of donor disbursements during the year (compliance with aggregate quarterly estimates)	**NP**	**NP**

The assessment of indicator D-1 requires that there are at least 3 (three) consecutive years of data in order to score the indicator. The information supplied indicates that the World Bank (WB) gave direct budget support in 2011 and 2012 but not in 2010 and, for this reason, this indicator was not assessed. In terms of predictability of Direct Budget Support, it should be highlighted that commitments are made in the context of the agreement between the Democratic Republic of São Tome and Príncipe (RDSTP) and the WB, which stipulate annual commitments and disbursement. However, there is no routine of confirmation of the annual commitments within the framework of the budget formulation process nor a systematic process of establishing a treasury plan including data on the planned disbursement of direct budget support. These routines represent the good practices of other countries.

D-2: Financial information provided by donors for budgeting and reporting on support for projects and programmes

D-2 Financial information provided by donors for the budget and report of support for projects and programmes (M1 scoring methodology)	**2008**	**2012**
	D	**D**
(i) Completeness and timeliness of budget estimates provided by donors for project support	**D**	**D**
(ii) Frequency and coverage of reporting by donors on actual donor flows for project support	**D**	**D**

Most of the international partners present their commitments within the framework of international cooperation agreements signed between the Government of the Democratic Republic of STP and the international partner. These commitments establish a total amount and annual commitment information. The commitments and forecasts are not systematically updated and a routine for requesting this information has yet to be put in place by the São-Tome authorities. This is important in order to allow a realistic budget to be drawn up. There are international partners that do present the necessary information but deficiencies exist on the side of the partners and authorities. The need to define a structured process, instructions on the process and the format of information to meet the purposes of budget planning and formulation and to provide an analysis by the authorities is recognised. Currently the responsibility for coordination of the area of international cooperation falls to the Ministry of Foreign Affairs, Cooperation and Communities. However, the connecting link with the Ministry of Planning and Finance needs to be strengthened in order to meet the challenges relating to the predictability and reliability of data on the resources from donations or credits. According to the information provided there are no routines for the systematic collection of financial information provided by donors for budgeting and reporting on support for projects and programmes. For this reason, a "D" is accorded to the two dimensions and to the indicator D-2, the same result as in 2009.

D-3: Proportion of assistance managed in accordance with national procedures

DI-3 Proportion of assistance managed in accordance with national procedures (M1 scoring methodology)	**2008**	**2012**
	D	**D**
(i) Proportion of funds from international cooperation to central government managed via national procedures	**D**	**D**

With regard to the proportion of assistance managed according to national procedures, we found that the information on some of the external financing is integrated in the state budget and some external financing is held in Single Treasury Accounts, but that national procedures are not applied to the budgetary implementation process, which include all the procedures and routines relating to the budget execution, reporting, procurement and financial statements. . Reliable data on the comprehensiveness of the information included in the state budget do not exist. For this reason, a score of "D" is maintained for this indicator.

IV. REFORMS

To be completed in the final version

A. Recent initiatives and ongoing reforms

B. PFM priorities for 2013 and beyond

Table A-1: Comparison of 2008 and 2012 scores			
	2008	**2012**	**Comments on progress**
A. PFM OUTCOMES: Credibility of the budget			To be completed in the final version
PI-1 Aggregate expenditure outcome compared to original approved budget	**C**	**C**	To be completed in the final version
PI-2 Composition of expenditure executed compared to original approved budget	**D**	**D+**	To be completed in the final version
(i) Volume of variation in the composition of expenditure during the last three years, excluding contingency items	**D**	**D**	To be completed in the final version
(ii) Average expenditure actually charged to contingencies item over the last three years.	**NP**	**A**	To be completed in the final version
PI-3 Aggregate revenue executed compared to original approved budget	**A**	**B**	To be completed in the final version
PI-4 Surveying and monitoring of expenditure payment arrears	**C+**	**C+**	To be completed in the final version
(i) Total expenditure payment arrears (as percentage of total actual expenditure for the corresponding financial year) and any recent change to capital.	**B**	**B**	Idem
(ii) Availability of data for monitoring total expenditure payment arrears	**C**	**C**	Idem
B. PRINCIPAL TRANS-SECTOR ISSUES: Comprehensiveness and transparency			**Idem**
PI-5 Classification of the budget	**B**	**B**	Idem
PI-6 Comprehensiveness of information included in budget documentation	**C**	**A**	Idem
PI-7 Extent of unreported government operations	**C**	**C**	Idem
(i) Level of unreported extra-budgetary expenditure (excluding donor-financed projects) , that is, not included in fiscal reports	**C**	**C**	Idem
(ii) Revenue/expenditure information relating to donor-financed projects included in fiscal reports	**C**	**C**	Idem
PI-8 Transparency of intergovernmental fiscal relations	**A**	**A**	Idem
(i) Transparent, rule-based systems to determine horizontal appropriations between local governments of	**A**	**A**	Idem
(ii) Timeliness and credibility of information from central government to local governments on its appropriations for the following year	**B**	**A**	Idem
(iii) Degree to which consolidated fiscal data (at least regarding revenue and expenditure) are collected and reported to general government in accordance with sector-based strategies	**A**	**A**	Idem
PI-9 Supervision of aggregate fiscal risk by other public sector bodies	**D+**	**D+**	Idem

(i) Comprehensiveness of monitoring of Autonomous Government Agencies and Public Corporations by central government	**C**	**C**	Idem
(ii) Comprehensiveness of monitoring of fiscal position of sub-national governments by central government	**D**	**D**	Idem
PI-10 Public access to important fiscal information	**C**	**B**	Idem
C. BUDGET CYCLE			
(1) *Formulation of policy-based budget*			
PI-11 Method and participation in the annual budget process	**D**	**B**	Idem
(i) Existence of a fixed budget schedule and compliance therewith.	**D**	**C**	Idem
(ii) Clarity/comprehensiveness of guidelines on the preparation of budget dispatches (budget instructions or equivalent) and policy participation in those guidelines	**D**	**A**	Idem
(iii) Suitable budget approval by the legislative power or body with similar mandate (in the last three years)	**D**	**C**	Idem
PI-12 Multi-year perspective of fiscal planning, expenditure policy and formulation of budget	**D+**	**C+**	Idem
(i) Drafting of multi-year fiscal projections and functional allocations	**D**	**C**	Idem
(ii) Scope and frequency of analysis of debt sustainability	**A**	**A**	Idem
(iii) Existence of sector-based strategies with multi-year costing of periodic expenditure and investments	**D**	**B**	Idem
(iv) Links between investment budgets and forward expenditure estimates.	**D**	**D**	Idem
(2) Predictability and control of the implementation of the budget			*Idem*
PI-13 Transparency of taxpayers' obligations and responsibilities	**B**	**B+**	Idem
(i) Clarity and comprehensiveness of fiscal responsibilities	**B**	**B**	Idem
(ii) Taxpayers' access to information on fiscal responsibilities and administrative procedures	**B**	**A**	Idem
(iii) Existence and operation of a tax appeal system	**C**	**B**	Idem
PI-14 Effectiveness of measures for registration of taxpayers and tax assessment	**B**	**B**	Idem
(i) Controls of taxpayer registration system	**B**	**B**	
(ii) Effectiveness of fines for non-compliance with registration and declaration obligations	**C**	**C**	
(iii) Planning and monitoring of fraud investigation programmes and tax audits	**B**	**B**	
PI-15 Effectiveness in tax collection	**D+**	**D+**	

(i) Rate of collection of gross tax arrears, with percentage of tax arrears at start of a fiscal year, which were collected during that fiscal year.	**D**	**D**	
(ii) Effectiveness of transfer of tax collections by the revenue authority to the Treasury	**A**	**A**	
(iii) Frequency of complete accounts reconciliation between tax assessments, collections, receipts and records of tax arrears by the Treasury	**B**	**B**	
PI-16 Predictability of available funds for expenditure commitments	**D+**	**C+**	
(i) Degree to which cash flows are projected and monitored	**D**	**B**	
(ii) Reliability and horizon of periodic information in the fiscal year in progress to Ministries, Departments and Organisations (MDOs) with regard to maximum values for contracting of expenditure	**D**	**C**	
(iii) Frequency and transparency of adjustments to budget allocations determined above the management level of MDOs	**C**	**C**	
PI-17 Recording and management of cash balances, debts and guarantees	**D+**	**C**	
(i) Quality of data recording and reporting	**C**	**C**	
(ii) Level of consolidation of government cash balances	**D**	**B**	
(iii) Systems for contracting loans and issuing guarantees	**D**	**D**	
PI-18 Effectiveness of payroll controls	**D**	**D+**	
(i) Level of integration and reconciliation between staff records and payroll data	**D**	**C**	
(ii) Timeliness to change staff records and payroll	**D**	**C**	
(iii) Internal controls of changes to staff records and payroll	**D**	**C**	
(iv) Existence of payroll audits to identify control weaknesses and/or ghost workers	**D**	**D**	
PI-19 Systems of transparency, competition and claims in procurement	**C+**	**C+**	
(i) Transparency, comprehensiveness and competition in the legal and regulatory framework	**B**	**B**	
(ii) Use of competitive tendering methods	**C**	**C**	
(iii) Public access to reliable, timely procurement information	**N.A.**	**C**	
(iv) Existence of an independent administrative system for claims regarding competitions	**C**	**C**	
PI-20 Effectiveness of internal controls of non-wage expenditure	**D+**	**C+**	
(i) Effectiveness of controls of expenditure commitments	**C**	**C**	

(ii) Comprehensiveness, relevance and understanding of other rules/procedures of internal control	**D**	**C**	
(iii) Level of compliance with rules for processing and recording transactions	**C**	**C**	
PI-21 Effectiveness of internal audit	**D+**	**C+**	
(i) Cover and quality of internal audit function	**D**	**B**	
(ii) Frequency and distribution of reports	**B**	**B**	
(iii) Level of management response to internal audit findings	**D**	**C**	
(3) Accounts, records and formulation of reports			
PI-22 Timeliness and regularity of accounts reconciliation	**D**	**C**	
(i) Regularity of bank reconciliations	**D**	**C**	
(ii) Regularity of reconciliation and offsetting of suspense accounts and advances	**D**	**C**	
PI-23 Availability of information on resources received by service delivery unit	**D**	**C**	
PI-24 Quality and timeliness of budget reports for the fiscal year in progress	**D+**	**C**	
(i) Scope of reports in terms of coverage and compatibility with budget estimates	**D**	**C**	
(ii) Timeliness for issue of reports	**B**	**C**	
(iii) Quality of information	**C**	**C**	
PI-25 Quality and timeliness of annual financial statements	**D**	**D+**	
(i) Complete financial statements	**D**	**C**	
(ii) Timeliness of presentation of financial statements	**D**	**D**	
(iii) Accounting rules used	**D**	**C**	
(4) Inspection and external audit			
PI-26 Scope, nature and follow-up of external audit	D	C	
(i) Scope/nature of audit performed (including adherence to auditing standards)	***D***	***B***	
(ii) Timeliness of presentation of audit reports to the legislature	**D**	**C**	
(iii) Follow-up evidence in respect of audit recommendations	**D**	**C**	
PI-27 Detailed legislative examination of the annual budget law	**D+**	**B+**	
(i) Scope of examination by the legislature	**B**	**A**	
(ii) Extent to which the procedures of the legislature are well-established and respected	**A**	**A**	

(iii) Sufficiency of time for the legislature to respond to budget proposals for detailed estimates and, where applicable, for proposals on the macrofiscal and aggregate policy at the start of the budget formulation cycle	**B**	**B**	
(iv) Rules for amending the budget in the fiscal year in progress without the prior approval of the legislature	**D**	**B**	
PI-28 Parliamentary scrutiny of external audit reports	**D**	**D**	
(i) Timeliness of examination of the audit reports by the legislature (reports received in the last three years)	**D**	**D**	
(ii) Timeliness of submission of audit reports to the National Assembly	**D**	**D**	
(iii) Follow-up evidence	**D**	**D**	
PRATICES OF DONORS			
D-1 Predictability of Direct Budget Support	**NP**	**NP**	
(i) Annual deviation of actual budget support from the projection provided by donor agencies at least six weeks prior to the government presenting its budget proposals to the National Assembly	**NP**	**NP**	
(ii) Timeliness of donor disbursements in the fiscal year in progress	**NP**	**NP**	
D-2 Financial information provided by donors for budgeting and reporting on assistance for projects and programmes	**D**	**D**	
(i) Integrity and timeliness of budget estimates by donors for project support	**D**	**D**	
(ii) Frequency and coverage of donor reports on actual cash flows for project support	**D**	**D**	
D-3 Proportion of assistance managed by the use of national procedures	**D**	**D**	

ANNEXE B

Documents consulted

To be completed in the final version

General

- Constitution of the Republic of São Tome and Príncipe
- The programme of the XV Constitutional Government
- Decree-Law No. 3/2013 Approves Organic of the XV Constitutional Government
- Law No. 1/2012, Approves the Main Options of the Plan for 2012
- Law No. 10/1992 Framework Law for local Authorities
- Law No. 10/2005 Law revising the Framework Law for local Authorities
-

Credibility of the budget:

- Report on Public Finance Management IV Quarter 2012
- Report on Public Finance Management III Quarter 2012
- Report on Public Finance Management I Quarter 2012
- Report on Public Finance Management I Quarter 2012
- Report on Public Finance Management Financial Year of Year 2011
- Report on Public Finance Management I Quarter 2011
- Law No. 2/2013, State Budget Law For Financial Year Of 2013
- Public Investments Programme 2013
- Citizen's Budget, 2013
- Preliminary Draft State Budget for 2013
- Law No. 2/2012 State Budget Law for Financial Year Of 2012
- Public Investments Programme 2012
- Circular for preparation of budget 2013
- Circular for preparation of budget 2012
- Circular for preparation of budget 2011
- Circular for preparation of budget 2010
- Directives for drafting of State Budget 2013
- Directives for drafting of State Budget 2012
- Directives for drafting of State Budget 2011
- Directives for drafting of State Budget 2010
- Law No. 3/2007 Law on the Integrated System of State Finance Management
- Medium-Term Expenditure Framework Agriculture and Fisheries Sector 2013-2015 (Draft, October 2012)

- Medium-Term Expenditure Framework Transport Sector 2013-2015, final version October 2012
- Technical assistance for Reform of Public Finances, June 2011, Project Manual
- Budget classification 2007
- Statement of Accounts certified by TC 2011
- Law No. 3/1999 Organic Law of Court of Accounts
- Law No. 8/1999 on Presentation of accounts
- Accounting manual applied to SAFE-e, version of July 2011

Revenue and tax legislation
- Law No. 39/2009 Approves the Customs Code
- Order No. 12/2010 New customs clearance model
- Decree No. 49/2009 Creates the Customs Public and Private Partnership Forum
- Decree No. 55/2006 Approves the Organic Statute of the Directorate of Customs
- Decree-law No. 27 / 2005. Approves the Organic Statute of the Directorate of Tax
- Decree No. 24/2009. Approves the Regulation defining the rules of organisation, operation and activities of audits after customs clearance
- Schedule of fiscal obligations
- Law No. 6/2007 Law approving the General Tax Code
- Law No. 7/2007 Law approving the Tax Procedure and Process Code
- Law No. 10/2009 Corporation Tax Code
- Law No. 11/2009 Personal Income Tax Code
- Regulations and other standards

Implementation of the budget
- Decree No. 32/2009 Approves the Organic Statute of the Treasury Department
- Decree No. 8/2008 Approves the Organic Statute of the Public Accounting Department
- Decree No. 26/2012 Defines and Clarifies the Mission, Powers and organisational structure of the Directorate-General for Planning of the Ministry of Planning and Development
- Decree No. 61/2009 Approved the Organic Statute of the Directorate of the Budget
- Decree No. 7/2010 Regulation on Single Service Point for Creating a Company
- Order No. 13/2009 financial administration, new bank order
- Decree-Law No. 56/2006 Defines the Nature, Mission, Scope and Powers of the Inspectorate General of Finance
- General State Accounts 2010
- Decree No. 42 /2012 Year of Presentation of Accounts
- Law No. 18/2009 Approves the General State Inventory
- Decree No. 47 /2009 Management and Disposal of Movable and Immovable Property and Vehicles of the State

Other

- PEFA 2010 Report
- First Assessment within the framework of Extended Credit Facility, International Monetary Fund, July 2013
- Debt Management Performance Assessment (DeMPA), São Tomé and Príncipe September 2011 – World Bank

- Guideline Document on Cooperation of PALOP (Angola, Cape Verde, Guinea-Bissau, Mozambique, São Tomé and Príncipe) and East Timor/European Commission- 10th FED; Final Version, 06.May.2008
- Democratic Republic of São Tomé and Príncipe – European Community; Document on country strategy and national indicative programme for period 2008-2013

ANNEXE C

List of participants

To be completed in final version

Minister for Finance Dr. Hélio Almeida
Gabinete do Ordenador Nacional (GON) Dr. Carlos Trigueiros; Dr. Vasco Bonfim
Directorate of Accounts Dr. Joana Varela
Directorate of the Budget Dr. Genésio de Mata, Dr. Wagner Fernandes,
Directorate of Planning Dr. Filipe Moniz
Directorate of Treasury Dr. Ana Maria Silveira, Dr. Costa
Directorate of Assets Dr. António Aguiar, Dr. Hilário Paiva, Joel Meneses (Eng.)
Directorate of Customs Dr. Leopoldina Fernandes, Dr. Belmiro Costa
Directorate of Tax Dr. Jaime Bruzacas, Dr. Elsa
Inspectorate General of Finance (IGF) Dr. Raul Viana (IG); Dr. Virgílio Neto; Dr. Mª José Aguiar
National Public Administration Department Dr. Semoa
Information Technologies Department Dr. Fernando Pontes
Customs Auditing Unit Dr. Odair Sousa; Dr. Danilo Barbosa
COSSIL Dr. Jorge Mendes; Dr. Vinício Pina; Dr. Joi Trindade
Public Debt Management Office Dr. Maria dos Santos Tebus, Dr. Carlos Costa
DAF [Directorate of Financial Administration] of Ministry of Health Dr. Amadeu Diogo, Mrs Maria Emília
DAF of Ministry of Agriculture and Fisheries Dr. Anastácio Meneses
DAF Ministry of Public Works Dr. Jacinto Loureiro, Dr. Berley, Dr. Celso Fonseca
Court of Accounts (TC) Dr. Monte Cristo (Pr.)
Central Bank of São Tomé and Príncipe Dr. Mascari Fernandes (Administrator); Dr. Maria Piedade; Dr. Hermes Nascimento
2ª Committee of the National Assembly Ministers: Guilherme Octaviano; Maria das Neves Sousa, José Diogo, Somangem, Dionísio, Arlindo Ramos, Alexandre Guadalupe, Gil Costa and Expert Alcino Afonso
Embassy of Portugal – Portuguese Coop. Dr. Nuno Vaz
Caué District Council President, Dr. Américo
Association of Customs Clearing Agents President, Helder Baptista