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MOZAMBIQUE

BUDGET BRIEF 2017: SOCIAL ACTION

Key Messages:

- Definition of the Sector: in the 2017 LOE, for the third consecutive year, the allocation referring to "Social Action" was classified as part of the "Social Action and Labour" sector. This sector includes the allocations to the Ministry of Gender, Children and Social Action (MGCAS), to the National Social Action Institute (INAS), to the Social Subsidies[1] and to the *"Labour and Employment"* sub-sector (Ministry of Labour, Employment and Social Security and its units). To improve the transparency of the LOE itself, it would be important for the Social Action sub-sector to be classified independently of Labour and Employment.

- Allocation to the Sector: the State Budget for 2017 was approved on 9 December 2016[2]. The present "Budget Brief on the Social Action Sector" analyses the LOE approved for 2017. The sum of MT 7.6 billion was allocated to the "Social Action and Labour" Sector (compared with the MT 5.3 billion allocated in 2016), representing 2.8% of the total public expenditure[3] envisaged in the State Budget (it was 2.6% in 2016).

- Variations in the allocation to the Sector: The allocation granted in the 2017 LOE to the "Social Action and Labour" sector represents an increase of MT 2.2 billion when compared to the allocation in the 2016 LOE, which is a growth of 41%, in nominal terms. This growth is due mainly to the increase in the allocation intended for price subsidies (+ MT 1.2 billion), due to the reintroduction of food and fuel subsidies which had previously been eliminated. There was also an increase in the allocation for INAS (increase of MT 896 million), due to a greater disbursement arising from the loan agreement with the World Bank to finance the Productive Social Action Programme (PASP).

- Trend: The budget allocated specifically to Social Action, that is, the allocation to MGCAS and to INAS (excluding the sums allocated to the so-called "social subsidies" – fuel and food subsidies), represents an increase, when compared to the previous year, both in terms of weight in the GDP (from 0.56% of GDP in 2016 to 0.59% in 2017), and as a percentage of the OE (from 1.60% of the OE in 2016 to 1.74% of the OE in 2017). Although this increase is positive, it is a long way from reaching the 0.75% of GDP that was allocated to MGCAS and INAS in 2015, which was when it attained its greatest weight in relation to the GDP. Thus, for 2017 MT 4.7 billion was programmed, which is an increase of around 22% in nominal terms when compared with the 2016 LOE (MT 3.9 billion), and an increase of about 18% in real terms, taking the effect of inflation into account[4].

Note: The ILO and UNICEF do not have access to e-SISTAFE; as a result, the entire analysis has been based on information available to the public. In cases where limitations were found, notes were introduced in the text.

1) The Social Subsidies include: subsidies for fuel, for wheat flour (channelled to the Mozambican association of Bakers - AMOPÃO) and the subsidy to transporters (channelled to the Mozambican Road Transport Federation, FEMATRO). Until 2015, the subsidies intended to cover the deficits in running the Public Companies were wrongly regarded as expenditure of the Social Action sector.

2) Law no. 10/2016, of 30 December.

3) It is important to mention that the Mozambican government uses an alternative methodology to calculate the share of the sector in the budget: instead of using the entire State Budget or total expenditure as the denominator in the calculation, it deducts debt servicing and financial operations from the total decreasing the denominator. The result is a greater weight. When using the methodology of the government, the sector accounts for 3.6% of the 2017 State Budget.

- Coverage of the INAS programmes: Despite a significant fall, the targets for the basic social protection programmes managed by INAS maintain a positive progression, and the overall target for 2017 has been kept at 540,531[5] households benefitting from these programmes (PSSB, PASD and PASP), compared with the 498,866 households served in 2016. Despite the advance, this target for 2017 still represents only 19% of households living in poverty[6] in Mozambique.

- Value of the transfers: In 2017, unlike what happened in 2013, 2014 and 2015, there was no adjustment of the value of the levels of the Basic Social Allowance Programme (PSSB). The adjustments are important to deal with inflation and the fluctuation in the prices of basic food basket (which create a significant loss in purchasing power for the beneficiaries of the transfers). To conserve the same purchasing power as in 2015, the value that a PSSB beneficiary would receive at the first level should have risen in 2017 from MT 310 to MT 418, given the inflation that occurred in 2016[7] and 2017[8]. The value of the food kit distributed through the Direct Social Support Programme (PASD) was also kept at the same level as in 2015 (MT 1,500).

- Equity of allocations: persists a lack of correlation between the geographical distribution of poverty and vulnerability indicators and the distribution of resources through the INAS programmes, which could lead to a worsening of inequalities. However, there has been an improvement in the correlation between higher indices of poverty and better budgetary allocation for the programmes in recent years.

- Social Subsidies (SS): In 2017, the allocation to the Social Subsidies (fuel, wheat flour and transporter subsidies) underwent a significant increase, from the MT 942 million allocated in 2016 to MT 2.2 billion in 2017. These subsidies are less progressive than the subsidies distributed through the basic social protection programmes implemented by INAS, since the social subsidies benefit the population as a whole (indeed the Social Subsidies benefit more the richest quintiles of the population) and not specifically the most vulnerable strata, diluting their impact on reducing poverty and inequality.

- ENSSB 2016-2024: The targets laid down in the National Basic Social Security Strategy (ENSSB) 2016-2024[9] with which the sector was endowed to define the guiding lines for basic social protection will require heavy investment in the budgetary allocation to the sector in the coming years. It is becoming necessary to prioritise the relative weight that the sector will have in the coming years in terms of the OE and the GDP (in 2024, according to ENSSB II, 2.23% of the GDP should be destined to cover the costs of the various social protection programmes, compared with 0.47% allocated in 2017).

- Economic Crisis and Social Protection: In the current economic context, where more people are in a situation of vulnerability, it would be strategic to strengthen the basic social protection programmes, since they are one of the main instruments for responding to poverty and vulnerability, to strengthen the resilience and consumption capacity of households and to promote human capital, as mentioned in the recently approved ENSSB 2016-2024, the document that will guide developments in the area of basic social protection in Mozambique in the coming years.

4) The background paper for the 2017 LOE gives the average inflation rate for 2017 as 15.5%.
5) Economic and Social Plan (PES) 2017, December 2016, page 31.
6) Considering the national poverty rate mentioned (46.1%) in the Fourth National Poverty Assessment, 2014-2015, Ministry of Economy and Finance (MEF), 2016.
7) 16.7%
8) 15. 5%.
9) Endorsed at the ordinary meeting of the Council of Ministers on 23 February 2016.

Background

The State Budget and the Economic and Social Plan were approved by Parliament on 9 December 2016 and took effect on 1 January 2017. The State Budget and the Economic and Social Plan (PES) were promulgated by President Filipe Nyusi on 20 December 2016, and were then published as Law 10/2016 and Resolution 25/2016, respectively, on 30 December 2016.

The 2017 State Budget is for a total of 272.3 billion MT (US$ 3.86 billion)[10]; this is an increase in nominal and real terms compared with the 2016 State Budget and the total Government expenditure in 2016. The budget deficit is an unexpected 10.7 per cent. In nominal terms, the 2017 State Budget marks an increase of 12 per cent compared with the 2016 State Budget and an increase of 30 per cent compared with the sum executed of the 2016 State Budget[11]. In real terms, the 2017 budget is an increase of 1 per cent on the budget of the previous year and of 18 per cent compared with last year's expenditure. Indeed, in nominal terms, the 2017 State Budget is the largest ever recorded; however, in real terms it is the third largest, following the updated budget for 2014 and the 2015 State Budget[12]. The nominal increase observed in the 2017 State Budget reflects the forecast increases in expenditure on debt servicing, financial operations and subsidies. In fact, these increases are due to the weight of the country's debt, which is now heavier, the devaluation of its currency and higher inflation[13]. This contributes to a forecast budget deficit of 10.7 per cent, which the country will finance through greater indebtedness[14]. Nonetheless, the government is implementing certain austerity measures, namely: limits on new hiring of staff, outside of education, health and agriculture; restrictions on expenditure on fuel, travel and personal communications; and delaying new capital expenditure on projects that were not begun in 2016 [15].

The 2017 budget intended for the priority Economic and Social Sectors (which include the Social Action Sector) increased in nominal and real terms and as a percentage of the entire State Budget. In nominal terms, the allocation for the Economic and Social sectors, as defined in the Government's Five-Year Programme (PQG) and in the PES, increased by 18 per cent, compared with the allocation in the updated State Budget for 2016 and by 43 per cent compared with the sum executed by the priority sectors in 2016; however, in real terms, the increases recorded were 7 and 30 per cent, respectively. The weight of the priority sectors in the budget increased from the 50 per cent budgeted in 2016 to 53 per cent budgeted in 2017; however, the sum for 2017 is much lower than the historically high values recorded in 2012 and 2013, a time when expenditure on the priority sectors accounted for 62 per cent of total government expenditure. It is important to stress here that the Mozambican government uses an alternative methodology in calculating the percentages allocated to the priority sectors in budgeting and expenditure: instead of using the entire State Budget or total expenditure as the denominator in the calculation, the government deducts debt servicing and financial operations from the total. The result is a higher reported weight. Using the Government's methodology, the priority sectors represent 69 per cent of the 2017 State Budget.

10) The present report uses the following exchange rate: US$ 1 = MT 70.45, since this was the average exchange rte for 2017 at the moment when it was published.

11) Note that when this report was published, the CGE for 2016 had not yet been published. For this reason, all the references to expenditure referring to the 2016 fiscal year are based on the data on execution contained in REO IV 2016.

12) Author's calculations, based on the forecast inflation rate for 2017 of 15.5 per cent. LOE 2017, Documento da Fundamentação, page 11.

13) (i) The ratio of the debt to the GDP of Mozambique increased from 40 per cent of GDP in 2012 to 73 per cent in 2015 and to 130 per cent o GDP in late 2016. (ii) Inflation rose from 4 per cent in 2015 to 25 per cent on late 2016, with the forecast that inflation in 2017 will be 15.5 per cent. (iii) The Mozambican metical underwent a depreciation from US$ 1 = MT 48 in January 2016 to US$ 1 = MT 71 in January 2017. Sources: (i) World Bank, "Mozambique Economic Update", December 2016. (ii) World Bank, Indicators of World Development. (iii) National Statistics Institute, February 2017.

14) LOE 2017. Background Paper. Page 34.

15) MEF. Circular No.1/GAB-MEF/2017. "Administração e Execução do Orçamento do Estado para 2017" ("Administration and Execution of the 2017 State Budget").

MT 7.6 **billion is the share allocated to the Social Action and Labour sector within the 2017 State Budget**

Photo: ©UNICEF/Mozambique

1. How is the Social Action sector defined?

According to the 2017 State Budget Law (LOE), the Sector referred to as "Social Action and Labour" covers the activities that are the responsibility of the following institutions:

- Ministry of Gender, Children and Social Action (MGCAS) and its respective Provincial Directorates;
- National Social Action Institute (INAS) and its (30) Delegations;
- Ministry of Labour, Employment and Social Security; and
- The Social Subsidies (SS)[16] that are registered in the Category of General State Costs.

The definition of the sector has undergone some changes in recent years, which have brought some improvement, but which have also brought some distortions. In 2013, the document *"Metodologia para o cálculo das Despesas Prioritárias"* ("Methodology for Calculating Priority Expenditure"), drawn up by the National Planning and Budget Directorate (DNPO) brought two important changes in terms of clarity about the definition of the allocation for Social Action: 1) the allocations for the Ministry of Former Combatants' Affairs (MAAC), previously regarded as within the sector, ceased to be included with in it; and 2) the expenditure of the District Services of Health, Women and Social Action (SDSMAS) is regarded as within the Health Sector. A further positive change in terms of clarity in the allocation to the sector was the withdrawal of the allocation to the subsidies intended to cover the operational deficits of the Public Enterprises which, until 2015, were wrongly regarded as expenditure of the Social Action sector[17]. However, as from 2015, as can be seen in Table 13 of the Background Paper for the 2017 LOE *"Despesas nos Sectores Económicos e Sociais"* ("Expenditure on the Economic and Social Sectors"), the component "Labour and Employment" was added to the Social Action Sector (which consisted of the allocations to MGCAS, to INAS and to the Social Subsidies which *"seek to minimise the high cost of living that the public faces")*.

Some changes in the classification and disaggregation of information can improve significantly the transparency of the LOE regarding the allocation to the Social Action sub-sector. The inclusion of the resources allocated to "Labour and Employment" (Ministry of Labour and its units) together with those for "Social Action" creates a distortion in the perception of the nature of the Social Action Sub-Sector in the State Budget since the two sub-sectors do not have the same goals and their target populations are different. To improve transparency still further, bearing in mind that "Labour and Employment" is an equally priority sub-sector, it would be important that the Social Action Sub-Sector should have a classification independent of Labour and Employment. A further gain would be the inclusion in the LOE of disaggregated information on the amount allocated to each of the three types of price subsidies (fuel, wheat flour and transporter subsidies), since currently there is only information on the total allocation to cover all the subsidies, which reduces the transparency of how much is attributed to each of the subsidies.

16) Registered in the OE under the heading of General State Costs (EGE) "E.G.E-SUBSÍDIOS-CENTRAL".

17) UNICEF-ILO Budget Briefs 2014, 2015.

2. Social Action as Expenditure in the Priority Sectors

As from 2015, as can be seen in Table 13 of the Background Paper for the 2017 LOE *"Despesas nos Sectores Económicos e Sociais"* ("Expenditure on the Economic and Social Sectors"), the Social Action and Labour Sector (**MT 7,558 million**) has come to be formed, apart from MGCAS, INAS and the Social Subsidies which *"seek to minimise the high cost of living that the public faces"*, by the resources allocated to the component *"Labour"*.

Figure 1[18] shows the allocation to the various components of the "Social Action and Labour" sector in the 2017 LOE.

Photo: ©UNICEF/Mozambique

TABLE 13 Expenditures in the major Social and Economic Sectors in meticals

	Budget Law 2016			Budget Proposal 2017		
	Internal	External	Budget Law	Internal	External	Budget Prop.
Total Expenditure (Excluding EGE*)	157,159.5	47,144.5	204,304.1	157,545.6	52,347.6	209,893.2
Total Social and Economic Sectors	84,487.7	46,625.7	131, 113.4	91,419.4	53,083.0	144,502.5
Education	37,798.2	6,601.3	44,399.5	41,084.2	7,203.5	48,287.7
Health	15,931.6	7,964.7	23,896.3	20,526.0	617.8	21,143.8
Infrastructures	9,537.6	25,413.0	34,950.6	9,381.3	27,732.5	37,113.8
Roads	5,117.2	18,868.8	23,986.0	4,857.2	13,043.9	17,901.1
Water and Public Works	2,782.1	5,521.3	8,303.3	1,908.8	14,306.6	16,215.4
Mineral Resources and Energy	1,638.3	1,023.0	2,661.2	2,615.3	382.0	2,997.3
Agriculture and Rural Development	11,212 .0	5,005.5	16,217.5	9,556.7	8,659.1	18,215.8
Judiciary system	3,526.8	416.1	3,942.8	3,043.6	13.9	3,057.4
Transports and Communication	1,733.8	635.4	2,369.3	1,822.8	7,302.7	9,125.5
Social Action and Labour	4,748.6	598.7	5,337.4	6,004.9	1,553.6	7,558.5

* EGE- General State Costs.

FIGURE 1 Allocations to the various components of the Social Action and Labour sector, 2017

	Millions of MT
Total budget MGCAS	363
Total budget INAS	4,377
Price subsidies (fuel, wheat flour and transporters)	2,176
Labour and Employment	643
TOTAL	**7,558**

18) Author's calculations based on the data contained in the Integrated Maps, Accompanying Mapss, and Background Document of the 2017 LOE.

In 2017, the Social Action sub-sector enjoyed an increase of 22% in nominal terms, compared with 2016. This came after a worrying decline between 2015 and 2016.

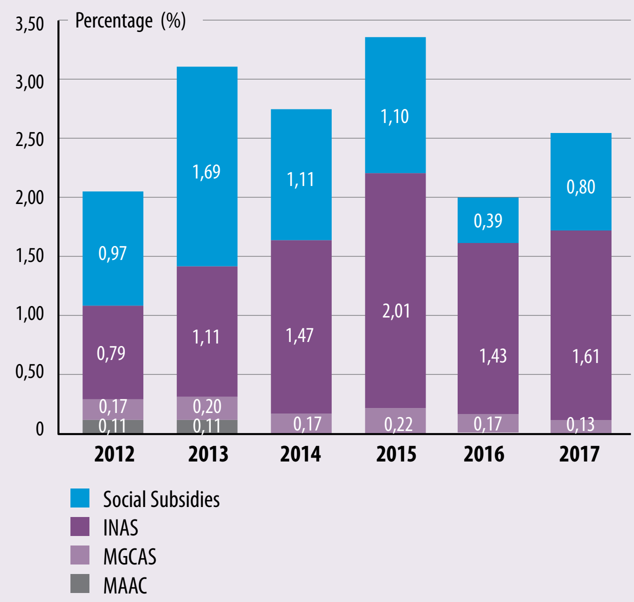
3. What trends are emerging from the Social Action budget?

In 2017, **MT 7.558 million (MT 7.6 billions)** were allocated to the *Social Action and Labour* sector. Of this sum, MT 363 million were allocated to MGCAS, **MT 4.377 million (or MT 4.4 billion)** to INAS, MT 2.176 million (or MT 2.2 billion) to Price Subsidies, and MT 643 million to Labour and Employment (see Figure #1).

Thus, excluding the "Labour and Employment" component, the total allocation to the Social Action sub-sector (which, according to the organic classification presented in the LOE, includes the price subsidies, also called social subsidies (SS), was **MT 6.9 billion** in 2017. Of this sum, MT 4.7 billion will be channelled to MGCAS and INAS, and MT 2.1 billion to the SS.

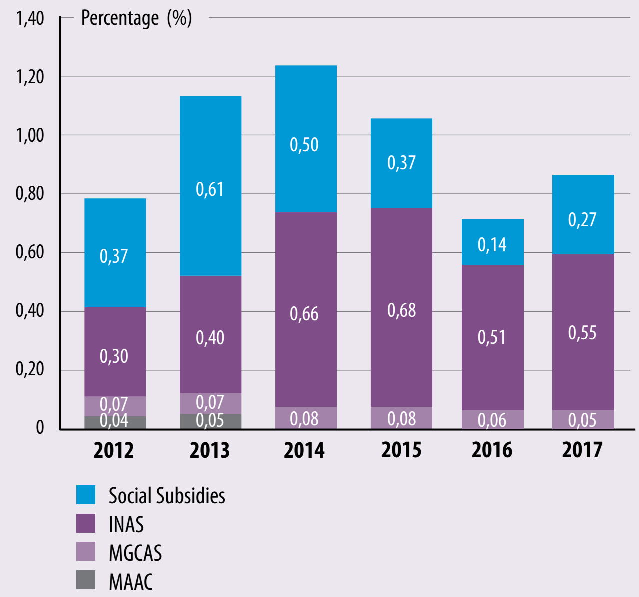
This allocation to the sub-sector amounts to 2.54% of the 2017 OE, which is a significant increase, when compared with the 1.75% registered in 2016.

FIGURE 2 Funds allocated to the Social Action sub-sector as a percentage of the State Budget



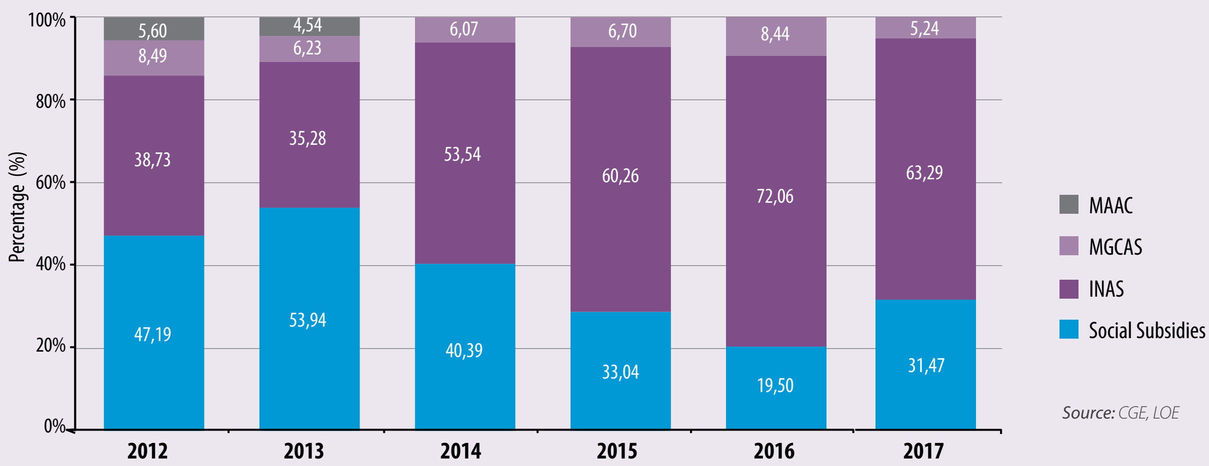
Source: CGE, LOE

FIGURE 3 Funds allocated to the Social Action sector as a percentage of GDP



Source: CGE, LOE

FIGURE 4 Distribution of the funds in the Social Action Sub-Sector (Organic Classification)



Source: CGE, LOE

The PASP programme should be considered as domestic financing, since it results from a debt to the World Bank, which implies the return of the money lent, plus the corresponding interest, out of funds that will be raised domestically.

4. Allocations to MGCAS and INAS

The allocations intended for MGCAS and INAS increased, in terms of their relative weight in the OE, from 1.60% in 2016 to 1.74% in 2017 (representing an increase of 18% in real terms). Of this 1.74%, the allocation programmed for INAS represents 1.61%, while MGCAS receives only the remaining 0.13%.

In Figure 5 one can note the evolution in the allocation both to the MGCAS and to INAS since 2008, and the significant fall that happened in 2016, given the unfavourable economic context, which broke with the positive trend of sustained growth observed particularly as from 2012, as well as the slight recovery observed in 2017.

4.1 INAS and the Social Protection Programmes – source of resources

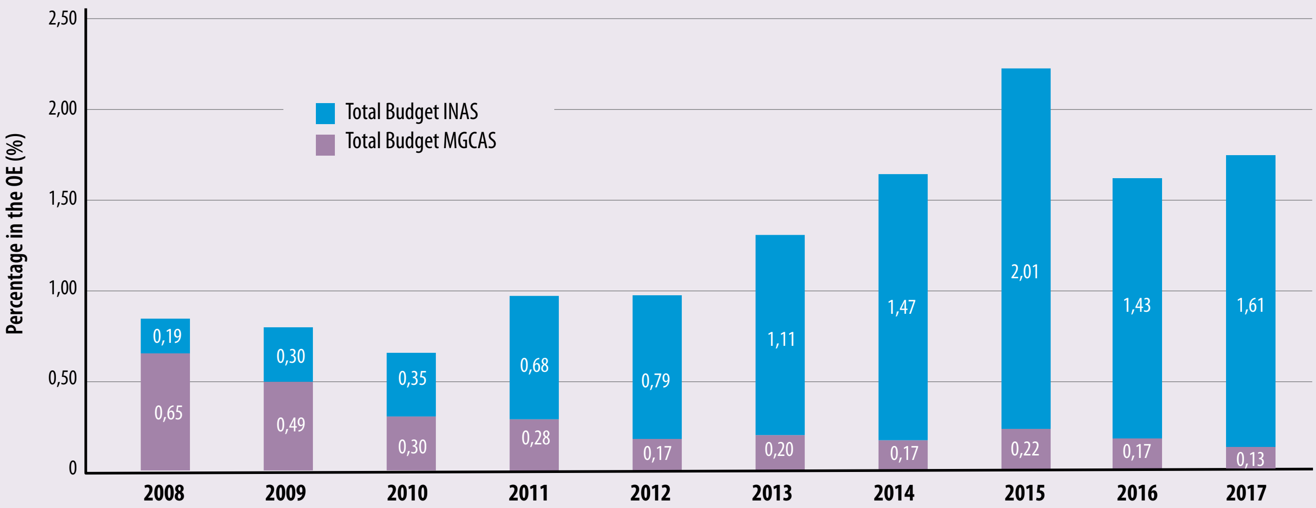
In the 2017 LOE, **MT 3.2 billion** (about USD 52 million) were allocated to cover the costs related with the four Basic Social Protection programmes (PSSB, PASD, PASP, and SSAS). Thus, the **PSSB[19] will have available MT 1.7 billion** (entirely financed by domestic funds, since the foreign support for the programme, which had been supported by the Department for International Development (DFID) of the United Kingdom and the Embassy of the Kingdom of the Netherlands (EKN), was withdrawn in 2016); **PASD[20] MT 692 million**; **PASP[21] MT 713 million;** and **SSAS[22] MT 89 million**.

The allocation to cover the costs of Basic Social Protection increased slightly in nominal terms when compared with the allocation in 2016 (from MT 3 billion to MT 3.2 billion), even taking into account that foreign support, which was already not very significant in previous years, now disappeared completely. Thus, the Social Action sector is currently financed entirely by domestic resources. In real terms, discounting the effect of inflation, the variation in the allocation was negative (-3%).

It is important to mention that **89% of the funds allocated to the PASP** in **2017 come from a loan** from the World Bank (WB) signed with the Mozambican Government (GdM) in 2013. Although classified as *"external investment",* **the PASP programme should be considered as financed entirely with domestic State resources, since the debt with the World Bank implies the return of the funds lent, plus the corresponding interest**.

The fact that the levels of financing to cover the costs of the various basic social protection programmes implemented by INAS have been maintained (or even slightly strengthened) in the 2017 LOE in the current context of the deep financial crisis the country is going through, shows the commitment of the GoM to the objectives that the ENSSB 2016-2024 intends to attain.

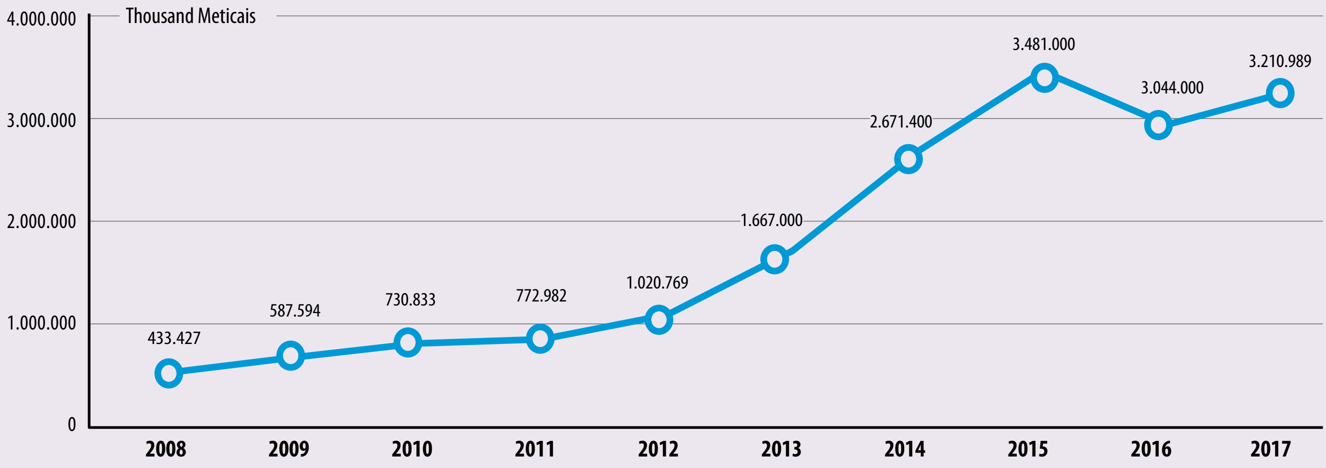
FIGURE 5 **Budget allocated to MGCAS and INAS**



Source: CGE, LOE

19) Basic Social Allowance Programme.
20) Direct Social Support Programme.
21) Productive Social Action Programme.
22) Social Action Social Services.

FIGURE 6 Budgetary allocation to the INAS Programmes



Source: *Reports of INAS, PES, LOE, General State Account (CGE), calculations by the author.*

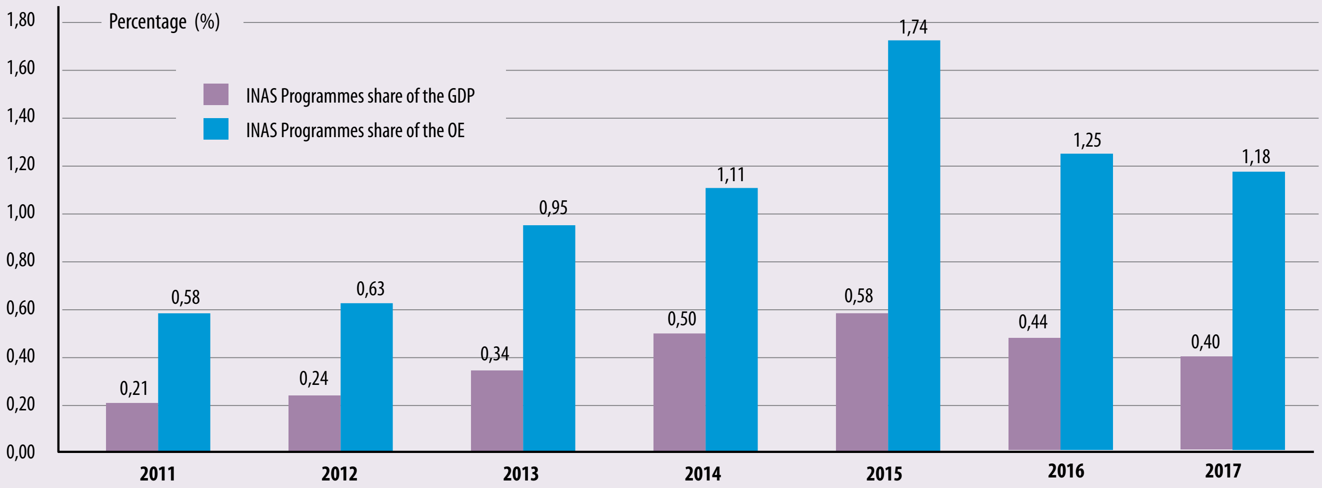
4.2 Trends: Allocation to the Basic Social Protection Programmes

Over recent years, there has been a positive trend in the allocations to the INAS programmes, both in absolute values, and as a percentage of the State Budget and of the Gross Domestic Product. The 2016 LOE interrupted this trend, since the allocation to cover the costs of the basic social protection programmes managed by INAS suffered a decline of about 18% in real terms, when compared with the 2015 allocation. The 2017 LOE partly reverses this picture (see Figure #6).

Figure 6 shows the growth in the weight of the allocation to the Social Protection programmes, from which one can note the positive trend interrupted in 2016 and the later slight recovery in nominal terms experienced in the current year of 2017.

In terms of the relative weight of the allocation to the Basic Social Protection programmes in relation to the GDP and the OE, it can be noted that the declining trend is continuing in 2017, despite an increase in nominal terms, returning to the levels of 2014 with regard to weight in the OE, as can be seen in Figure 7. This decline brings risks for the impact of the monetary transfers on vulnerable households through the Basic Social Protection programmes, and it is thus necessary to strengthen urgently the budgetary allocation to these programmes, especially in the context of the current

FIGURE 7 Evolution of the budget allocated to the INAS Programmes



0.40%

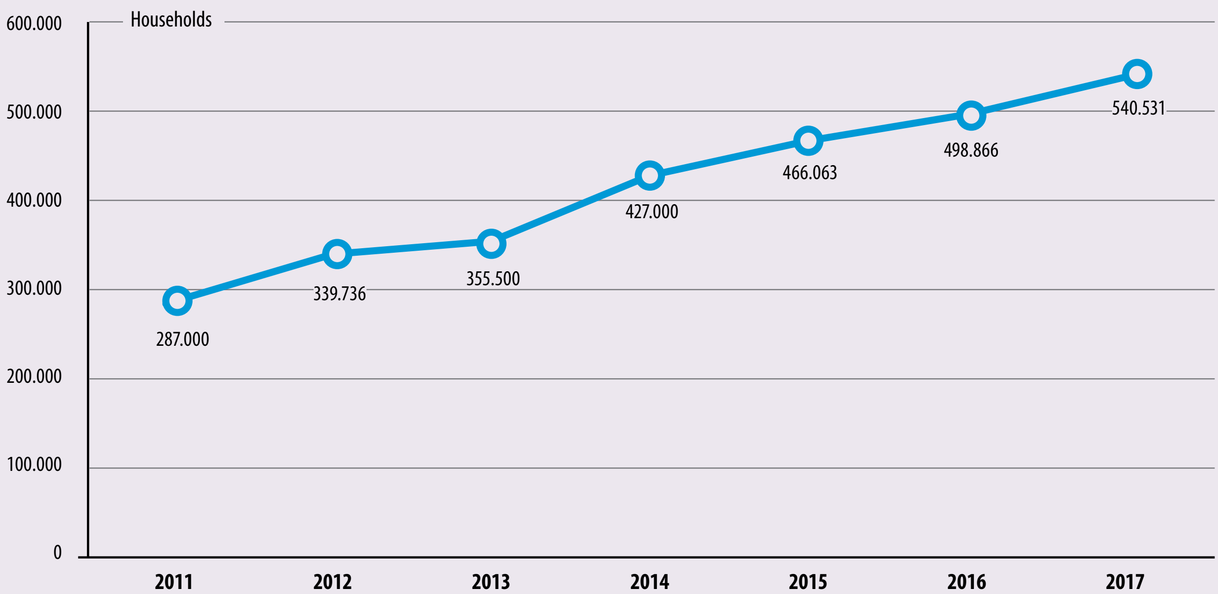
is the weight of the Basic Social Protection Programmes in the GDP. This is lower than the 0.58% reached in 2015, and interrupts the positive trend recorded since 2012.

economic crisis in which the number of people facing situations of vulnerability may be growing. The allocation to the Basic Social Protection programmes is still well below the international reference average. For example, the World Bank sets an average of **1.7% of GDP[23] in developing countries in Africa to be dedicated to social transfer programmes**. Likewise, the National Basic Social Security Strategy recently approved by the Council of Ministers (ENSSB 2016-2024) defines a scenario whereby by 2024, **2.24% of GDP** should be destined to cover the costs of the various social protection programmes. Thus, **it is becoming urgent to reverse this situation in the allocation for 2018**, in order to achieve the commitments and targets laid down both in the ENSSB 2016-2024 and in other programmatic instruments of the GoM, such as the **PQG[24] 2015-2019** (which mentions that, by 2019, **25%** of vulnerable households should be covered the basic social security programmes) and the **National Development Strategy (ENDE) 2015-2035**, which has a target of **covering 75%** of vulnerable households by 2035.

For 2017, the coverage targets for beneficiaries of the sector represent a growth over those of the previous year, making it possible to maintain the positive trend observed in recent years, as can be seen in Figure 8.

As can be seen in Figure 8, the increase in the target in terms of the coverage expected to be reached in 2017, taking into account the limited budgetary increase allocated to the programmes, means that the value of the transfers has not been revised to take inflation into account, which endangers the impact of the transfers on the well-being of the beneficiaries. As mentioned earlier, for 2017, unlike what occurred in 2013, 2014 and 2015, there was no adjustment in the value of the levels of the Basic Social Allowance

FIGURE 8 **Beneficiary households covered by the INAS programmes**



Source: *PES 2011-2017.*

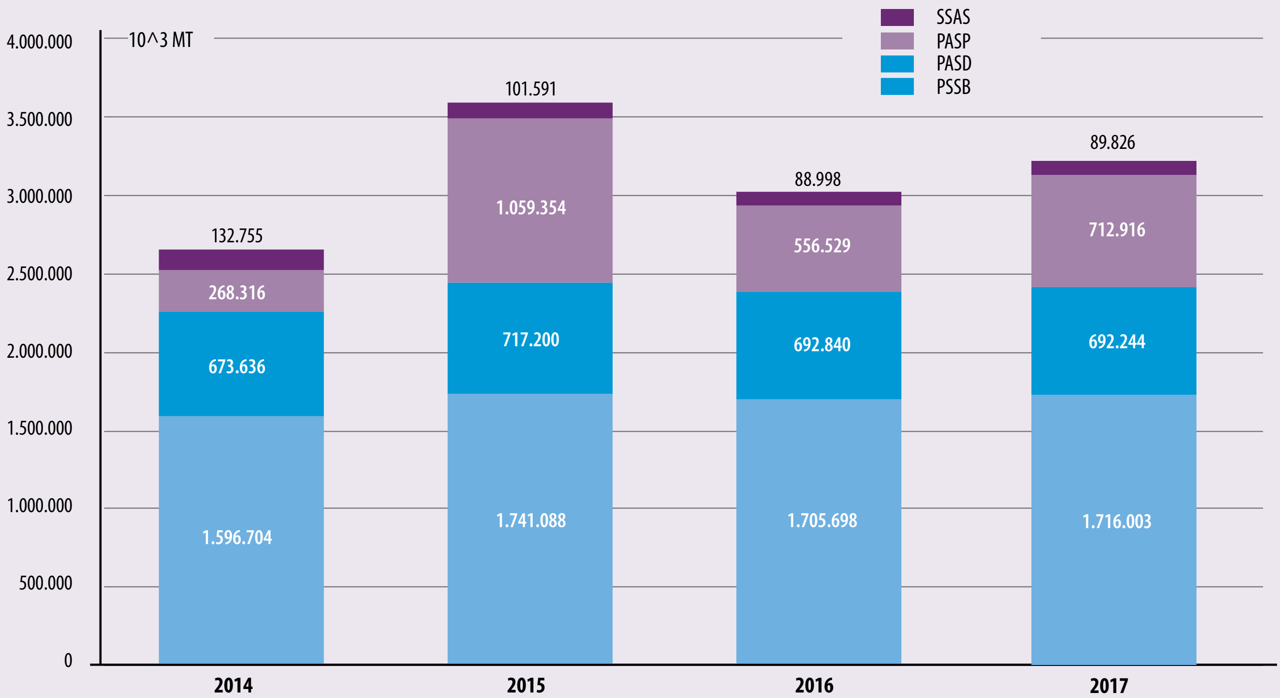
23) WB, 2012.
24) Government Five Year Programme 2015-2019.

19% (only) of poor households are covered by the Social Protection programmes. This number is far below the needs and the targets approved in the ENSSB and other programmatic documents such as the PGQ and ENDE.

Programme (PSSB) – the programme with greatest coverage – to deal with the inflation rate and the fluctuations in the prices of basic foodstuffs. This brings a significant loss of purchasing power of the beneficiaries, particularly in a context of high inflation as is currently happening. Thus the basic value for a household of just one person rose from MT 280 in 2014 to MT 310 in 2015 (in 2012 the sum allocated was MT 130). The sum may rise to a maximum of MT 610 for a household with four dependents. These same values were maintained in 2016 and in 2017. The value of the food kit distributed through the Direct Social Support Programme (PASD) was also kept in 2017 at the same level as in 2015 (MT 1,500: in 2013 it was MT 960). Thus the value of the transfer that the beneficiaries receive suffered an erosion in purchasing power in 2016 and 2017; to conserve the same purchasing power as in 2015, given the accumulated inflation of 2016 and 2017 **the MT 310 that a beneficiary of the PSSB receives in the first level should have been revised upwards to MT 422.**

As can be noted in Figure 9, the allocation to the PSSB, PASD and SSAS remained on similar parameters throughout the last four years. The PASP programme shows the most irregular behaviour in terms of budgetary allocation, which may have to do with the lack of control that the INAS has over the planning and execution of this programme, implemented, as mentioned earlier, with funds from a loan agreement signed with the World Bank in 2013.

FIGURE 9 **Allocation for the various INAS programmes**



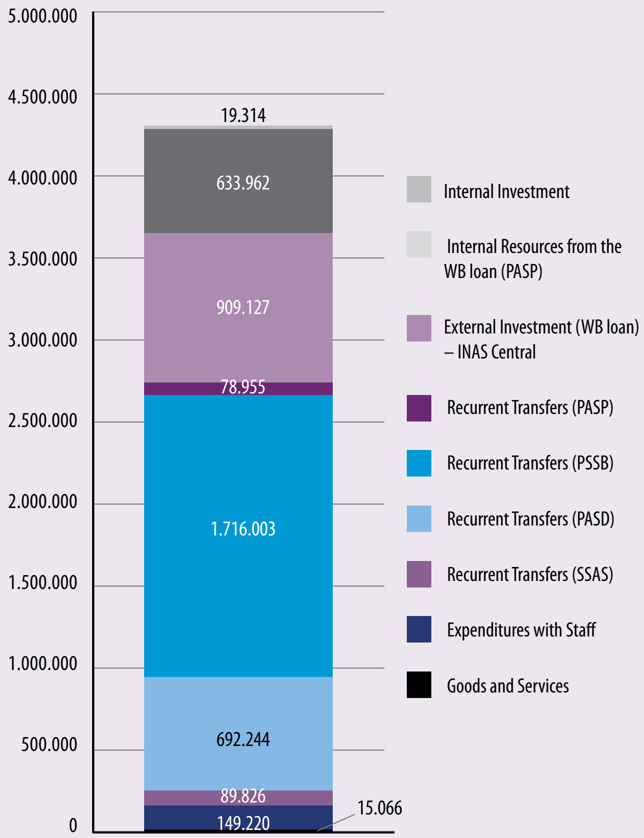
Source: CGE 2014; LOE 2015, 2016, 2017

5.3 How are the resources of INAS spent?

In Figure 10 one may observe in detail the composition of the allocation earmarked for INAS in the 2017 LOE, totalizing the MT 4.3 billion already mentioned.

The **PSSB** remains the largest INAS programme in terms of resources made available, amounting to approximately **53%** of the resources allocated to all the INAS social protection programmes, followed by the **PASD (22%)**, **PASP (22%)** and finally the **SSAS (2%)**.

FIGURE 10 **Components of Expenditure of INAS 2017 (in thousands of MT)**



100% of the resources allocated to the INAS Basic Social Protection programmes are domestic. In 2016, only 2% were external. This declining trend began in 2011, when the external component accounted for 21.6% of the resources.

Attention is drawn to the volume of resources allocated to INAS-Central in the 2017 OE (earmarked as "external investment") coming from the loan agreement with the World Bank **(MT 909 million, about USD 14 million at the current exchange rate – 1USD=62MT[25])**, while the **resources allocated for the direct implementation of programmes are not allocated centrally but at the level of the INAS delegations**. This budget may have to do with the ***Procurement Plan*[26]** developed by the WB for 2017 under the loan agreement signed with the GoM in 2013, which refers to the purchase of goods (motor-cycles, vehicles, IT equipment) and services (consultants, assessment of the impact of the PASP programme) of about **USD 11.3 million for 2017**. Thus, of the USD 50 million from the loan agreement with the World Bank to implement the PASP between 2013 and 2020[27], at least **USD 11.3 million (22,6%) was spent on goods and services and not on direct monetary transfers guided to reach the most vulnerable population strata, as defined in the objective of the project**.

25) Exchange rate for September 2017.

26) Mozambique - Social Protection Project (P129524)/(P161351), Credit Number IDA 52260 – Simplified Procurement Plan (2017), http://documents.worldbank.org/curated/en/993131490960832399/pdf/Plan-Archive-1.pdf

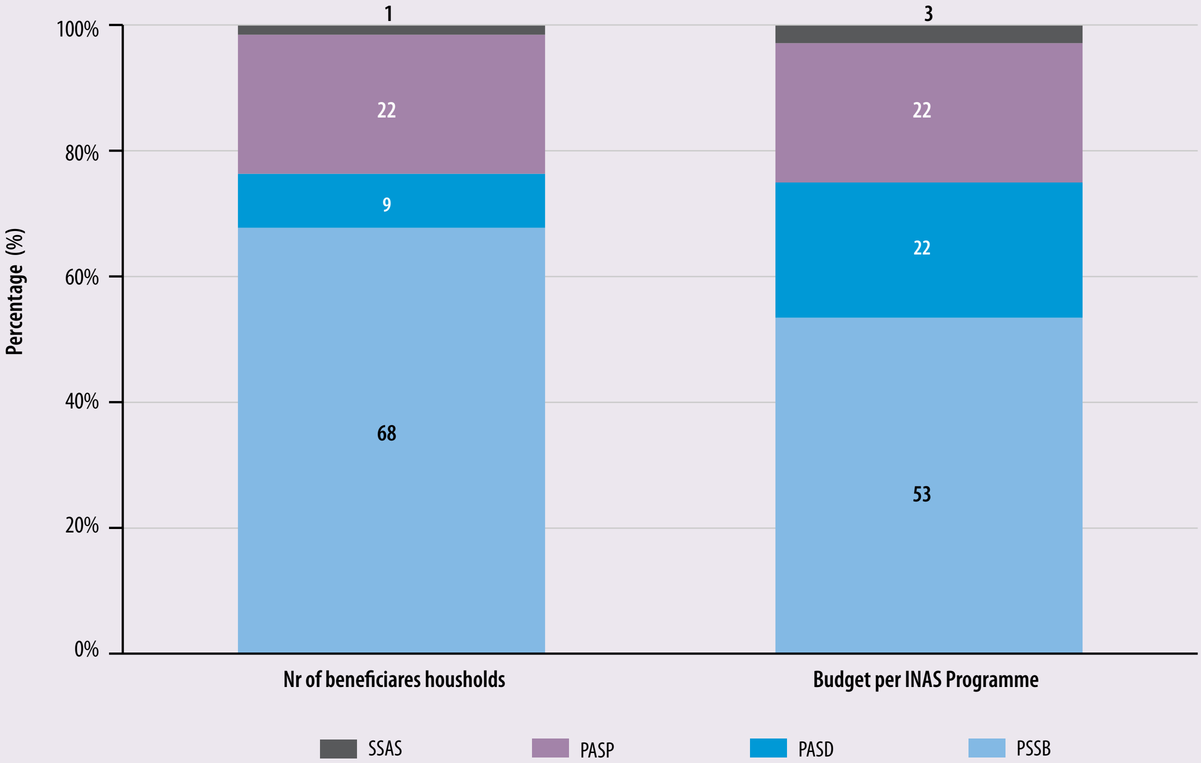
27) The initial date for the close of the project was 30 June 2018, but it was recently extended to 31 December 2020, given its low rate of execution (http://documents.worldbank.org/curated/en/403351495576512051/pdf/ISR-Disclosable-P129524-05-23-2017-1495576500914.pdf)

100% **of the resources allocated to INAS Basic Social Protection Programs are domestic. In 2016 only 2% were external. This downward trend began in 2011 when the external component accounted for 21.6% of the resources.**

In terms of the number of households covered by each programme, the **PSSB** (which receives 53% of the resources allocated to the INAS programmes) will cover **68%** of the total number of beneficiaries forecasted for 2017, followed by **PASP (22%)**, **PASD (9%)** and **SSAS (1%)** (see Figure 11).

In the case of the PASD, it is important to note that this programme includes various types of benefits, framed within two main kinds of support: i) prolonged support (Food Kit) and ii) specific support. The "specific support" component includes, among others, the component of "**house building**", which was creating an important distortion in the beneficiaries/budget relation within the PASD programme, since **only 60 households** in the entire country benefitted from this component[28], but **the construction of these 60 houses consumed more than 4% of the total resources allocated to the PASD**. In the 2017 LOE, this house building component was discarded by INAS, in an attempt to increase the total number of beneficiaries of the basic social protection system with a budget similar to that of 2016, making it possible to add a further 41,000 beneficiary households to the PSSB target for 2017 with the resources saved from the house building component in the PASD, increasing efficiency in the use of limited resources.

FIGURE 11 **INAS programmes: percentage of the total beneficiaries in each programme, and the weight of each programme in the total budget**



Source: LOE 2017

28) PES of INAS, 2015, 2016.

5. Where do the resources come from?

5.1 Source of Resources: internal vs external

Of the envelope of resources allocated to the INAS in 2017 (MT 3.4 billion), unlike what had happened previously, all the resources allocated to the Basic Social Protection sector (INAS + MGCAS) are domestic in origin. As mentioned earlier, the funds allocated to the PASP from the loan from the World Bank (WB) on the amount of USD 50 million, signed with the GoM in 2013, although mentioned in the LOE as "external investment", **should be considered as internal (domestic) resources of the State, because the debt to the WB implies returning the funds lent, plus the corresponding interest.** In 2016, only 1.8% of the total budget allocated to INAS was of external origin. Only DFID and EKN made external funds available directly to the Social Action sub-sector, through the Single Treasury Account (CUT), in this case to support the monetary transfers distributed through the PSSB. The sum inscribed in the OE in 2016 by DFID and EKN was about MT 64 million, confirming a declining trend noted in recent years with regard to the weight of outside support directly channelled through the CUT.

It is important to mention that the Social Action sub-sector benefits from the external support of several national and international partners (ILO, UNICEF, WFP, etc.), in terms of technical and financial support for the development of various components of the Basic Social Protection system in Mozambique, but this support is not recorded in the LOE nor are the funds transferred to INAS/MGCAS, and so it is not quantified in this document.

5.2 Expenditure on Staff and Goods and Services

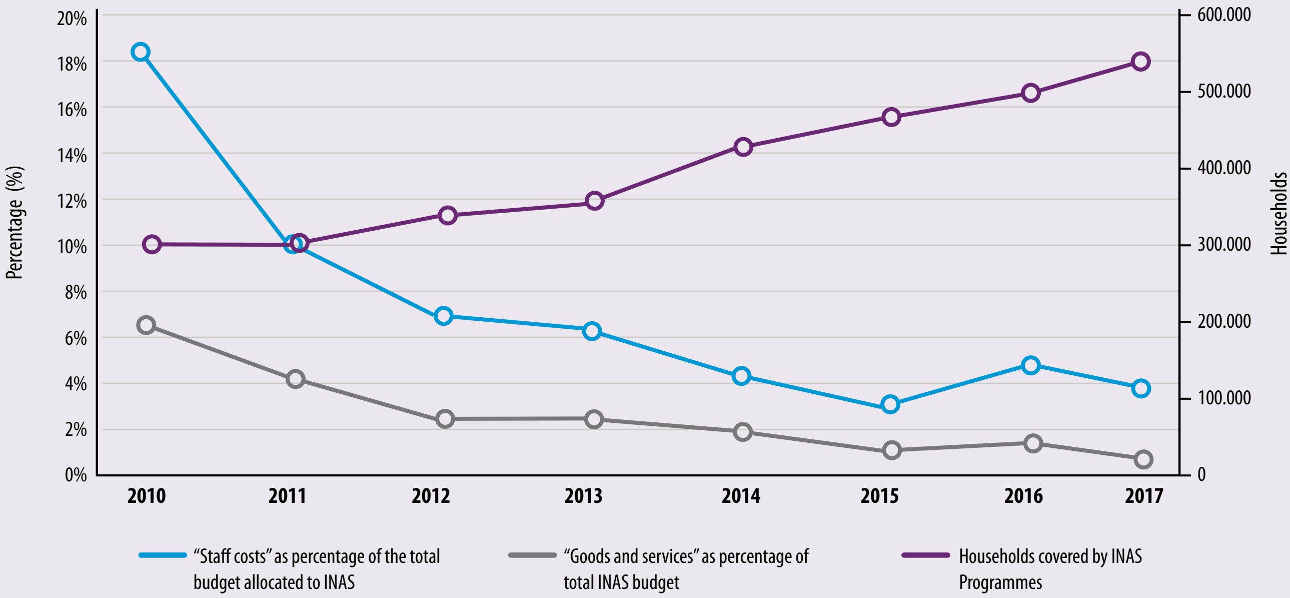
The resources allocated to the INAS for running costs ("*Staff costs*" and for "*Goods and Services*") remain very low in 2017, as has been the case in recent years. The portion of the total INAS budget reserved for wages fell from 20% in 2009 to 3.98% in 2017 (MT 174 million).

It is becoming urgent to deal with this constraint in terms of skilled human resources available for INAS, since this fact has an impact on the performance of the sub-Sector and thus on the capacity of the sub-Sector to mobilise more resources from the OE in the coming years. It is necessary to increase the allocation for staff and to make possible the recruitment of new staff to avoid poor performance by the sub-sector, in line with the recommendations of ENSSB 2016-2024 about the boosting of human resources (Axis 4).

Likewise, the budget attributed to the "*Goods and Services*" category (current expenditure to cover costs of transport, maintenance of vehicles, etc.) account for just **0.69% of the total budget attributed to INAS**. It has undergone constant reductions year after year (in 2009 this budget line had an allocation of 10.8% of the total destined for INAS). This is translated in serious constraints on the ground (in the INAS delegations), resulting in a low capacity for performance and provision of services to the most vulnerable population.

One notes the declining trend in the allocation to these two components of INAS expenditure when compared with the previous years (in 2016 there was a slight recovery in the relative weight in the amount allocated to INAS). They remain very far from adequate amounts, and the budget for these two components must be strengthened (Figure 12).

FIGURE 12 **Evolution of the weight of staff costs and goods and services within the total amount allocated to INAS**



Source: CGE, LOE

The resources allocated in INAS to "Staff Costs" and for "Goods and Services" for 2017 remain extremely low, putting at risk the capacity to implement the INAS programmes.

Photo: ©UNICEF/Mozambique

6. Alignment with ENSSB 2016-2024, PQG and other strategic documents

The targets set in **ENSSB 2016-2024**, approved at the Ordinary Meeting of the Council of Ministers on 23 February 2016, with which the sector was endowed to define the guidelines for Basic Social Protection will require a strong investment in the budgetary allocation to the sub-sector in the coming years in order to attain the goals laid down and to comply with the undertakings given. It is necessary to prioritise the relative weight that the sub-sector should have in successive years in terms of the OE and the GDP, since, under the targets laid down, **in 2024, 2.23% of the GDP should be destined to cover the costs of the various Social Protection Programmes. By way of comparison, in 2017 only 0.40% of the GDP has been allocated to this end**. Likewise, ENSSB 2016-2024 brings clear recommendations with regard to strengthening human resources.

In the **Government's Five-Year Programme (PQG) 2015-2019**, the document that will guide the various actions of the Government in the 2015-2019 period, the target appears of covering by 2019, **25% of the households in a situation of vulnerability**, starting from the 15% estimated as being catered for in 2015. Likewise, in the "***National Development Strategy (ENDE) 2015-2035***", published in July 2014, the target is set of, **reaching, by 2035, a "*rate of poor and vulnerable households benefiting from basic social protection" of around* 75%**.

To reach these ambitious goals defined in the two main - medium and long term - strategic documents drawn up by the Government, the allocations to the various Basic Social Protection programmes should continue to grow in a constant manner over the coming years.

The challenges of modernising the systems of managing the beneficiaries, outsourcing the payment mechanisms, relisting the current beneficiaries, etc., which are processes currently under way, will also require heavy investments in the coming years, as well as a substantial strengthening of the human resources which the sector will need to reach the targets and goals laid down.

FIGURE 13 Allocation per capita (PSSB+PASD+PASP+SSAS) in the poor population per Province, 2017

Province	Allocation (10^3 MT) according to LOE 2017 (PSSB+PASD+PASP+SSAS)	Poor population (individuals) (Incidence of consumption poverty, Fourth National Assessment of Poverty and Well-Being in Mozambique, 2014-15 Ministry of Economy and Finance)	Allocation per capita (MT) among the poor population in 2017
Maputo City	144.104	144.037	1.000
Maputo Province	93.002	312.855	297
Gaza	313.047	751.591	417
Inhambane	236.831	752.255	315
Manica	284.176	849.275	335
Sofala	237.846	950.640	250
Tete	367.422	865.917	424
Zambézia	469.361	2.891.472	162
Nampula	587.541	2.998.488	196
Niassa	221.815	1.039.042	213
Cabo Delgado	255.845	874.649	293
TOTAL	**3.210.989**	**12.430.221**	**257 (National Average)**

Source: *Author's calculations, Considering the Poverty Incidence Index (Fourth National Poverty Assessment, Ministry of Economy and Finance (MEF), 2017, and the demographic projections prepared by INE for the year 2017, by district.*

There is no positive correlation between the level of poverty per province and the budgetary allocation to the INAS programmes. There is a need to expand the programmes so that they observe intra-national differences.

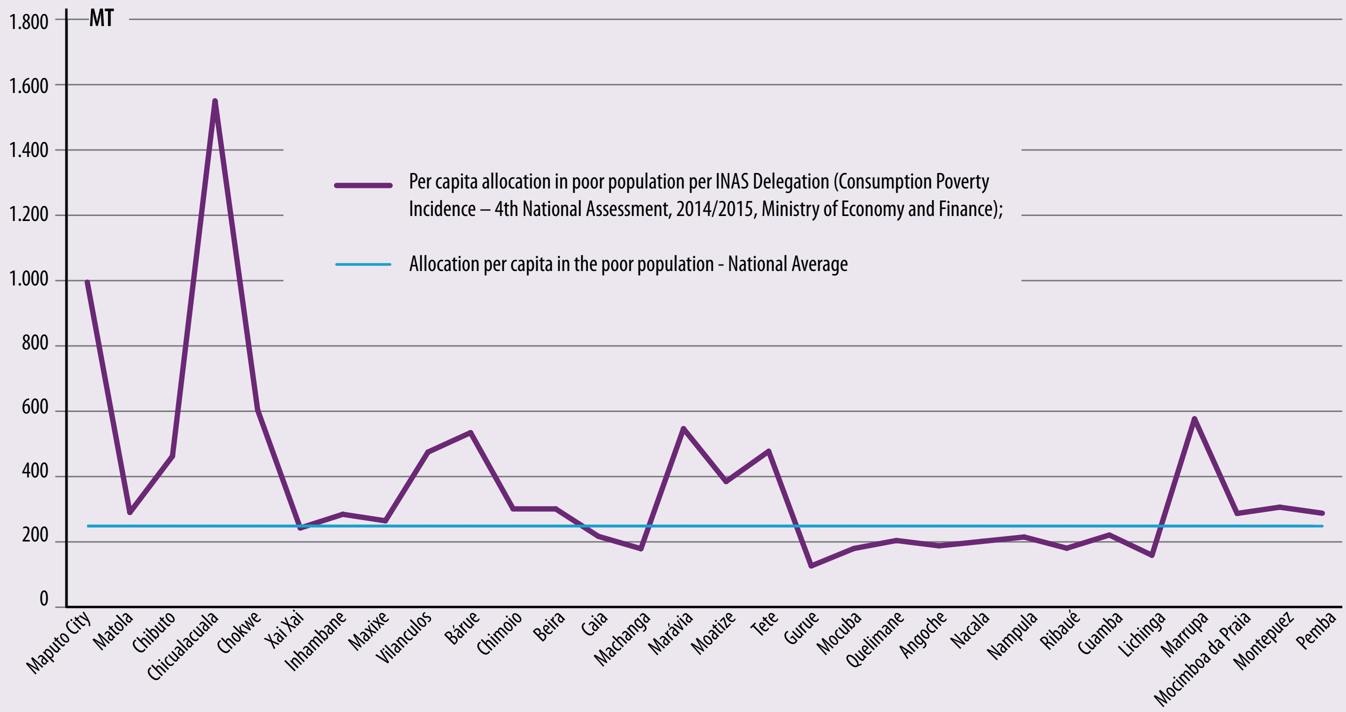
7. Is the Geographical Distribution of the Resources Equitable?

INAS has tried to reduce the disparities noted in the geographical distribution of the resources allocated to the four different Social Protection Programmes (PSSB, PASD, PASP, SSAS). To this end, INAS has introduced objective criteria in defining the targets of beneficiaries per delegation, using demographic and poverty indicators. However, there are still substantial differences at provincial level with regard to the per capita allocation of these resources, taking into account the estimated poor population[29], which could be considered the universe of potential beneficiaries of the Basic Social Protection Programmes

Thus, Zambézia, Nampula, Inhambane and Maputo Provinces will receive, channelled through the four Basic Social Protection Programmes managed by INAS in 2017, an annual per capita allocation (considering the estimated poor population) lower than the national average, which will be **MT 257** per person living in poverty for the entire year of 2017.

The unequal geographical distribution of the resources allocated to the various Basic Social Protection Programmes, taking into account per capita allocation among the poor population[30], is shown in Figure 13, which shows allocations per delegation[31].

FIGURE 14 **Allocation per capita (PSSB+PASD+PASP+SSAS) in the poor population by INAS Delegation, 2017**



Source: LOE 2017; PES of INAS 2017; Census 2007 (INE) and population projections of the INE for 2017; Fourth National Assessment of Poverty and Well-Being in Mozambique, 2014-15, Ministry of Economy and Finance, 2016..

29) Considering the Poverty Incidence Index (Fourth National Poverty Assessment, Ministry of Economy and Finance (MEF), 2017, and the demographic projections for 2017 per district drawn up by the INE.

30) Considering the Consumption Poverty Incidence Index, Fourth National Assessment of Poverty and Well-Being in Mozambique, 2014-15, Ministry of Economy and Finance, 2016.

31) The calculations were made taking into account the demographic data referring to the districts which comprise each of the 30 INAS delegations (e.g., the Mocímboa da Praia delegation also covers Palma, Muidumbe, Nangade and Mueda districts). See "Distribuição da área de jurisdição/Distritos por Delegação", INAS.

Per capita allocation in poor population per INAS Delegation (Consumption Poverty Incidence – 4th National Assessment, 2014/2015, Ministry of Economy and Finance);

Thus for the entire year of 2017, the Chicualacuala delegation, for example, will have funds to cover the costs of the various social protection programmes equivalent to almost **MT 1,554** for each of the inhabitants regarded as poor who live in the districts covered by that INAS delegation, while, at the other extreme, the Gurúe delegation, in Zambézia, received an allocation equivalent to **MT 134** per capita, although it covers more than a million people estimated as poor. This disparity has been noted in previous years.

It is hoped that the new INAS Information Management System (e-INAS), which should be operational in 2017, might help INAS better distribute and plan resources, making management more efficient and making possible a greater impact of the monetary transfers on the vulnerable population, significantly improving the monitoring systems.


Photo: ©UNICEF/Mozambique

Budgetary terms

Initial Allocation: The first allocation of funds approved by Parliament

Corrected Allocation: A corrected allocation of funds approved by Parliament

Updated Allocation: The total amount of funds made available to a particular institution

Expenditure Undertaken: Allocated funds spent on investment, services and health products

Execution of the Budget: Percentage of allocated funds spent out of the total allocation.

Nominal, or current values: Numbers not corrected to take account of the effect of inflation.

Real values: Numbers corrected to take account of the effect of inflation

Glossary

AGO	Apoio Geral ao Orçamento
AF	Household
CGE	General State Account
CUT	Single Treasury Account
DFID	Department for International Development UK
DNO	National Budget Directorate
EKN	Embassy of the Kingdom of the Netherlands
ENDE	National Development Strategy
ENSSB	National Basic Social Security Strategy
FMI	International Monetary Fund
GDP	Gross Domestic Product
ILO	International Labour Organisation
INAS	National Social Action Institute
INE	National Statistics Institute
LOE	State Budget Law
MGCAS	Ministry of Gender, Children and Social Action
MPD	Ministry of Planning and Development
MT	Metical
OE	State Budget
PASD	Direct Social Action Programme
PASP	Productive Social Action Programme
PES	Economic and Social Plan
PQG	Government Five Year Programme
PSSB	Basic Social Allowance Programme
SS	Social Subsidies
SSAS	Social Action Social Services
UNICEF	United Nations Children's Fund
WB	World Bank

unicef
International Labour Organization
FORUM DE MONITORIA DO ORCAMENTO
PSC-PS
ROSC Fórum das Organizações da Sociedade Civil para os Direitos da Criança