ESS EXTENSION OF SOCIAL SECURITY

TOWARDS A MOZAMBICAN SOCIAL PROTECTION FLOOR

CONSOLIDATING A COMPREHENSIVE SOCIAL PROTECTION SYSTEM IN MOZAMBIQUE - ANALYSIS OF POLICY ALTERNATIVES AND COSTS

Nuno Cunha (ILO)
Luca Pellerano (OPM and IFS)
Johannes Mueller (IMF)
Victor Lledo (IMF)
Yuan Xiao (IMF)
Patrick Gitton (IMF)

International Labour Office

Social Security Department
Geneva

[ ] 2013

Table of contents

List of tables, figures and boxes

Abbreviations

ART	Antiretroviral Treatment
DFID	UK Department for International Development
EAP	Economically Active Population
ENSSB	Mozambican National Strategy of Basic Social Security
FAO	Food and Agriculture Organization
GDP	Gross Domestic Product
HBS	Household Budget Survey
HH	Household
HIPC	Heavily Indebted Poor Country
ILO	International Labour Organization
IMF	International Monetary Fund
INAS	Mozambican National Institute of Social Action
INE	Mozambican National Institute of Statistics
IOF	Inquérito ao Orçamento Familiar (Mozambican Household Budget Survey)
IFS	Institute for Fiscal Studies
MDRI	Multilateral Debt Relief Initiative
MISAU	Ministério de Saúde (Mozambican Ministry of Health)
MMAS	Ministério da Mulher e Acção Social (Mozambican Ministry of Women and Social Action)
MoF	Ministério das Finanças (Mozambican Ministry of Finance)
MPD	Mozambican Ministry of Planning and Development
MT	Metical
NGO	Non-Governmental Organization
OHCHR	UN Office of the High Commissioner for Human Rights
OPM	Oxford Policy Management
OVC	Orphans and Vulnerable Children

PARP	Mozambican Poverty Reduction Strategy Paper (Plano de Acção para a Redução da Pobreza)
PASD	Programa de Apoio Social Directo (Mozambican Direct Support Program)
PASP	Programa de Acção Social Produtiva (Mozambican Productive Social Action Program)
PSA	Programa Subsidio de Alimentos (Mozambican Food Subsidy Program)
PSI	Policy Support Instrument
PSSB	Programa Subsídio Social Básico (Mozambican Basic Social Subsidy Program)
RAP	Rapid Assessment Protocol
SIDA	Swedish International Development Cooperation Agency
SPF	Social Protection Floor
UN	United Nations
UNAIDS	Joint United Nations Programme on HIV/AIDS
UNDESA	United Nations Department of Economic and Social Affairs
UNDP	United Nations Development Programme
UNESCO	United Nations Educational, Scientific and Cultural Organization
UNFPA	United Nations Population Fund
UN-HABITAT	United Nations Human Settlements Programme
UNHCR	United Nations High Commissioner for Refugees
UNICEF	United Nations Children's Fund
UNODC	United Nations Office on Drugs and Crime
UNRWA	United Nations Relief and Works Agency
WB	World Bank
WFP	World Food Programme
WHO	World Health Organization
WMO	World Meteorological Organization

FOREWORD AND ACKNOWLEDGEMENTS

As a response to the deepening financial and economic crisis and the need to promote inclusive growth in its aftermath, the United Nations System, the International Monetary Fund (IMF), and the World Bank (WB) agreed on joining efforts to support the development and implementation of a social protection floor as part of their policy dialogue with their respective member countries.

The Social Protection Floor Initiative, as this initiative became to be known, was approved by the United Nations System Chief Executives Board (UN-CEB) in April 2009, with a view to support countries to plan and implement sustainable cash and in-kind social transfer schemes and essential social services. It called on global coalition involving other multilateral and development partners, including bilateral donors and international NGOs, to cooperate and coordinate their activities at the national, regional and global levels.[1]
In 2010, the ILO and the IMF agreed to reinforce their collaboration in the area of social protection policy development and joint analytical work, including exploring the concept of a social protection floor (SPF) within the context of a medium- to long-term framework of sustainable macroeconomic policies and strategies for development.[2]

At its 101st Session in June 2012 the International Labour Conference adopted a new international social security standard, the Social Protection Floors Recommendation, 2012 (No. 202).[3] This was the expression of the commitment of the 185 member states of the ILO towards making social security coverage for their populations a reality.

Effective national strategies to extend social security, in line with national circumstances, should aim at achieving universal protection of the population by ensuring at least minimum levels of income security and access to essential health care and progressively ensuring higher levels of protection. The ILO's two-dimensional social security extension strategy, adopted by the International Labour Conference at its 100th Session in June 2011 set this out in its Resolution and Conclusions.[4] The horizontal dimension consists of the "rapid implementation of national social protection floors, containing basic social security guarantees that ensure that over the life cycle all in need can afford and have access to essential health care and have income security at least at a nationally defined "minimum level" while its vertical dimension calls for progressively ensuring higher levels of protection guided by up-to-date ILO social security standards.

Within this context, Recommendation No. 202 sets out that member states should establish and maintain national social protection floors. These are nationally-defined sets of basic social security guarantees which secure protection to prevent or alleviate poverty, vulnerability and social exclusion. These guarantees should ensure at a minimum that, over the life cycle, all in need have access to essential health care and basic income security. The Recommendation complements the existing ILO social security standards and provides "flexible but meaningful guidance to member States in building social protection floors within comprehensive social security systems tailored to national circumstances and levels of development".[5]

[1] CEB Issue Paper: The global financial crisis and its impact on the work of the UN system.

[2] As stated in the Press Release from the joint Conference held in Oslo on "the Challenges of Growth, Employment and Social Cohesion", http://www.imf.org/external/np/sec/pr/2010/pr10339.htm

[3] Recommendation concerning national floors of social protection (Social Protection Floors Recommendation), 2012 (No. 202).

[4] ILO. 2011. Resolution and conclusions concerning the recurrent discussion on social protection (social security), International Labour Conference, 100th Session, Geneva, 2011, in *Record of Proceedings* (Geneva, 2011), No. 24: Report of the Committee for the Recurrent discussion on Social Protection. See ILO. 2012. Social Security for All: Building social protection floors and comprehensive social security systems. The strategy of the International Labour Organization (Geneva: International Labour Office), <http://www.socialsecurityextension.org/gimi/gess/RessFileDownload.do?ressourceId=34188>

[5] Ibid, para. 31.

Mozambique has been one of the fastest growing economies in Africa in the last two decades. Nevertheless, the recent challenges to translate this positive economic trend into significant achievements in terms of poverty reduction made clear the need for new policy approaches. In this quest for a more inclusive policy model in Mozambique, social protection became a more central element in the policy debate; the engagement of the authorities in close association with UN agencies and development partners led the country to be a pilot of the Social Protection Floor Initiative.

Indeed, despite the various challenges that the country faces, Mozambique has already started timidly the process of developing its social security system along the two-dimensional approach promoted by the ILO social security strategy and following the guidance provided by Recommendation No. 202. As presented in this report, its ENSSB and Operational Plan contribute very clearly to the national social security extension strategy which prioritizes the implementation and strengthening of social protection floor guarantees. Various UN and international organizations (ILO, UNICEF, WFP, IMF, WB) and development partners (DfID, Netherlands, and SIDA) are jointly working to assist the country in the implementation process.

This report has the objective of documenting the key elements of the on-going policy reform and exploring the technical and financial arguments underlying the Government's policy options. Particularly relevant for the Mozambican case was the broad participation of national and international stakeholders in the national policy dialogue. Among other things, the SPF Initiative in Mozambique entailed (i) a WB-led review of existing basic social protection programs; (ii) impact and costing simulations of the programs under the Operational Plan conducted by the ILO and UNICEF, with technical support from Oxford Policy Management (OPM);[6] and (iii) an IMF- led analysis on the fiscal space available to implement such programs.[7] The unique cooperation is also reflected in the fact that this report - produced in collaboration with the Poverty and Social Protection team at OPM - is among the first ILO/IMF documents within the studies assessing the fiscal affordability of national social protection floors.

The authors gratefully acknowledge the support received from all those involved in the on-going policy reform in Mozambique: ministries and institutions in charge of social protection policies (Ministry of Women and Social Affairs, National Institute of Social Action, Ministry of Labour, Ministry of Finance, the National Statistics Institution), the UN Resident Coordinator Office, UNICEF, WFP, DFID, Netherlands Embassy, World Bank, civil society organizations, and academia. The authors also appreciate the feedback received at various presentations on their study, including at the Brookings Institution in December 2011 (Washington, DC), the April 2012 Annual Meeting of the IMF, World Bank, and International Trade Union (ITUC)/Global Union in Washington, DC, and at a seminar in the African Department of the IMF. The authors would also like to thank the following individuals for their valuable contributions: Karuna Pal, Fidelis Hove, Andres Acuna-Ulate, Emmanuelle St-Pierre Guilbaut, Michael Cichon, Krzysztof Hagemejer, Luis Frota, Fabio Duran Valverde, Philippe Marcadent and Florence Bonnet.

We hope this document will be an additional contribution to the national policy dialogue, including the forthcoming discussion around the future of the National Basic Social Security (2011-2014), and that it will also constitute an example of the strength and the value-added that is gained from putting together the diversity of expertise from different development partners towards a common objective.

[6] Such simulations have been framed under the SPF Rapid Assessment Protocol developed with assistance from OPM, which is also involved in the analysis and reform of social protection systems in several Sub-Saharan Africa countries.

[7] The macroeconomic assumptions underlying this paper are based on IMF, 2013: Republic of Mozambique: Fifth Review under the Policy Support Instrument And Request For Modification Of Assessment Criteria, IMF Country Report No. 13/1.

1. Introduction

The recent years have been marked by significant institutional strides in the area of social protection in Mozambique, leading to initial but important steps into the progressive establishment of a National Social Protection Floor. Steps included the approval of a new regulatory framework in 2009 and the adoption of a National Strategy for Basic Social Security (ENSSB) in 2010. This process culminated with the approval of a new Strategic Operational Plan for Basic Social Security programs in 2011, henceforth referred to as the Operational Plan. This progress was accompanied by small but sustained increases of government budget allocations to the sector, which laid the ground for the increasing trend in beneficiary coverage observed in recent years.

This greater prominence of social protection reflects a quasi-consensual position among Mozambique stakeholders that new policy approaches should be introduced to guarantee a more inclusive pattern of economic growth. Mozambique has been one of the fastest growing economies in Africa in the last two decades, and has enjoyed a strong record of macro stability (IMF, 2011). However, after falling poverty rates in the first decade after the end of the civil war, more recently poverty rates have stagnated despite strong economic growth. Acknowledging this situation, the Government adopted a new Poverty Reduction Action Plan (Plano de Acção para a Redução da Pobreza – PARP – 2011-2014) which aims at achieving sustainable and inclusive economic growth while reducing poverty and vulnerability in the country. Fostering the creation of more productive jobs and developing a strong and skilled workforce are important elements to achieve both objectives. However, a large informal economy renders traditional contributory social insurance mechanisms incapable to reach the most vulnerable households in the short to medium run. This has prompted the current focus on basic (non-contributory) social protection programs as a central instrument in the country's development framework (MPD, 2011).

The Ministry of Women and Social Affairs (MMAS) is the line ministry responsible for the existing main basic social protection programs in the country. Although relatively small in coverage and budget allocation, the National Institute of Social Action (INAS) – MMAS' program implementation body - has a long and well established tradition of managing in-kind and cash transfer programs for the destitute and vulnerable households, mostly funded from the government budget. MMAS has also played a central role in the design, internal and external consultation, and on-going implementation of the 2011 Operational Plan, a key catalyst of the social protection floor in Mozambique. This plan helped clarify the overall objectives described by the ENSSB and set important elements of reform of the social protection system in Mozambique. It contains indications for new programs to be implemented in the area of Basic Social Security during 2012-14, and outlines ambitious targets in terms of coverage and budgetary resources.

The main elements of reform introduced with the new Operational Plan can be summarized as:

- Rationalization of interventions in the area of Basic Social Security with a view to establishing a comprehensive and coordinated system, as opposed to operating isolated programmes.
- Establishment of a coherent logic and unique routing to grant access to the system (identification and targeting) according to the household needs, status and conditions.
- Simplification of interventions to focus on a few core programmes for Basic Social Security.
- Expansion of the overall comprehensiveness and coverage of the system.
- Improved budget planning achieved by combining a more thorough analysis of fiscal space and the development of a social protection cost simulation tool.

However, a number of challenges to the implementation of the Operational Plan exist. With the support from development partners, including the IMF, the World Bank, and the UN family, the Government places particular emphasis to enhancing its targeting and beneficiary identification systems, payment procedures, and monitoring systems. It will also seek to build capacity at the district level and assess the possibility of obtaining further donor resources, possibly through the creation of a common fund currently being discussed. The successful implementation of the Operational Plan also hinges on the affordability of the new social protection programs and their social impact. One of the main conclusions from this report is that progressively expanding a SPF does not present a threat to fiscal sustainability. As a low-income country with huge development needs, Mozambique has been very successful in creating fiscal space for its priority spending in the past. Going forward, the government is expected to continue to reap the gains from revenue administration reforms and reprioritizing expenditures, such as phasing out the ill-targeted fuel subsidy. For the social protection floor, a budget allocation of around 0.8 percent of GDP is envisaged by the government for 2014-16. Revenues from the booming natural resource sector could possibly further enhance the available fiscal space, although social protection programs would need to compete with the other government priorities. This report draws on on-going policy discussions among local stakeholders and policy recommendations in a recent WB study (World Bank, 2011) and simulates the social impact and costs of alternative social protection programs to be implemented after 2014. Such programs would be critical to make a Social Protection Floor in Mozambique into reality.

This report's main objective is not to carry out a detailed analysis of the operational feasibility of the different options for policy reform, but rather to examine the fiscal affordability of expanding social protection systems through the implementation of some of the most promising policy options. Cost simulations reflect the fiscal burden that the government would have to bear in order to finance cash or in-kind entitlements, as well as to cover recurrent administrative costs. But it ignores the initial capital investment required to set up and strengthen systems, as well as to create managerial capacity and service delivery. The latter is assumed to be mobilized, in a first stage, mainly with support from development partners.

2. Context

2.1 The Social Protection Floor Framework

Over the past few years, there has been wide international acknowledgment of the fact that social security as a human right is an important tool to prevent and reduce poverty, inequality, social exclusion and social insecurity. The recent economic and financial crisis highlighted the need for countries to put in place social security systems providing - at least as a first step - basic social security benefits to mitigate the negative social consequences of the economic downturn.

Among a number of low-income countries, including Mozambique, the impact of the global financial crisis has been more subdued, and economic growth has been sustained. For those countries, social protection has also been increasingly recognized as an important ancillary instrument to ensure that economic growth is translated into more jobs and lower poverty rates.

Against this background, the SPF Initiative was approved by the United Nations System Chief Executives Board (UN-CEB) in April 2009, with a view to supporting countries in planning and implementing sustainable cash and in-kind social transfer schemes and essential social services (See Box 2.1).

Box 2.1 The International Framework for Social Protection

The Social Protection Floor Initiative was set by the High Level Committee on Programmes of the UN Chief Executives Board adopted the Social Protection Floor (SPF) as one of its Joint Crisis Initiatives in 2009, with the ILO and the WHO as lead agencies. This initiative supports countries to plan and implement sustainable social transfer schemes and essential social services. As this objective transcends the mandate of any single body or agency, the Initiative forms a global coalition, to date, of 19 UN bodies (including FAO, OHCHR, UNAIDS, UNDESA, UNDP, UNESCO, UNFPA, UN-HABITAT, UNHCR, UNICEF, UNODC, UN Regional Commissions, UNRWA, WFP, WMO), the IMF and the World Bank, as well as 14 development partners including bilateral donors, development banks and international NGOs that cooperate and coordinate their activities at national, regional and global levels.

IMF-ILO strengthened collaboration dates back to 2010 following the establishment of the High Level Social Protection Floor Advisory Group to enhance global advocacy and provide guidance on the conceptual and policy aspects of the Social Protection Floor. This Advisory Group has called on "the ILO and the IMF to increase cooperation on supporting countries in creating and enhancing fiscal space for the implementation of social policies on a sustainable basis" (SPF Advisory Group, 2011). Furthermore, in 2011 this was reinforced by a call made by the G20 Heads of State, at the Cannes Summit held on 3-4 November 2011, on "the importance of investing in nationally determined social protection floors in each of the countries."

ILO's Social Protection Floors Recommendation (No. 202) was adopted at ILO's 101st Session in June 2012. This new international social security standard complements the existing ILO social security standards and provides "flexible but meaningful guidance to member States in building social protection floors within comprehensive social security systems tailored to national circumstances and levels of development". The horizontal dimension of the ILO's strategy consists of the "rapid implementation of national social protection floors, containing basic social security guarantees that ensure that over the life cycle all in need can afford and have access to essential health care and have income security at least at a nationally defined minimum level".

According to R.202 National Social Protection Floors should comprise at least the following four social security guarantees, as defined at the national level:[8]

(a) access to essential health care, including maternity care;
(b) basic income security for children, providing access to nutrition, education, care and any other necessary goods and service

[8] Recommendation No. 202, paras. 4 and 5.

(c) basic income security for persons in active age who are unable to earn sufficient income, in particular in cases of sickness, unemployment, maternity and disability
(d) basic income security for older persons

Mozambique has already started the process of developing the horizontal dimension of the ILO social security strategy, following the guidance provided by Recommendation No. 202. As presented in this report, its ENSSB and Operational Plan participate to a clear national social security extension strategy which prioritizes the implementation and strengthening of social protection floor guarantees. Various UN and international organizations (ILO, UNICEF, WFP, IMF, and WB) and development partners (DfID, Netherlands, and SIDA) are working in collaboration to assist the country in the implementation process.

2.2 National Context

2.2.1 Socio-economic background

Mozambique is located in Southern Africa and occupies a territory of about 800,000 km^2, with a population estimated at 24 million. With an extremely young population, approximately half of its citizens are children under the age of eighteen (INE, 2007). Some key socio-economic indicators are reported in Table 2.1 (more detail can be found in Annex B).

Table 2.1 Mozambique socio-economic indicators

Population (1)	24,012,014
Age Structure (%) (1)	
0-14 years (1)	45.2%
15-59 years (1)	50.1%
60 years and over (1)	4.7%
Under 5 mortality rate (per 1,000 live births), both sexes (2)	141
Maternal mortality ratio (per 100,000 live births) (3)	500,1
Chronic Malnutrition (stunting) (2)	44%
Poverty Headcount (4)	54,7%
GDP per capita	
Current USD (5)	650
PPP (current international) (6)	1,149
Constant local currency (6)	7,217
Human Development Index ranking (7)	184

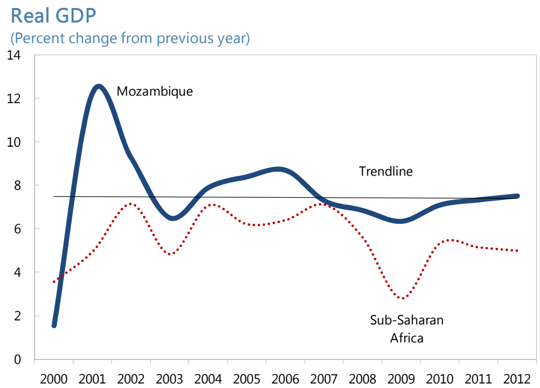
Source: (1) Population projections for 2011 produced on the basis of the 2007 census, INE; (2) Multiple indicator Cluster Survey, INE, 2011; (3) INE, 2007; (4) MPD, Third Poverty Evaluation, 2010 (5) IMF Country Report No13/1, January 2013; (6) IMF, World Economic Outlook, 2012; (7) UNDP, 2011.

Mozambique is seen as a country with enormous potential, but also with severe challenges. At the end of the civil war in 1992, Mozambique was one of the poorest countries in the world, with destroyed infrastructure, a fragile economy, lack of qualified human resources, and great political and institutional fragility. In the decades that followed the first free elections in 1994, the country came to be highlighted as an example of good economic performance. In the same period, Mozambique achieved substantial improvements in socioeconomic indicators, such as the Human Development Index (which rose from 0.195 in 1990 to 0.224 in 2000), and a significant reduction of absolute poverty (from 69 percent in 1997 to 54 percent in 2003). The economy kept growing at about 7.6 percent during 2005-09 (MPD, 2011) (see Box 2.2 below).

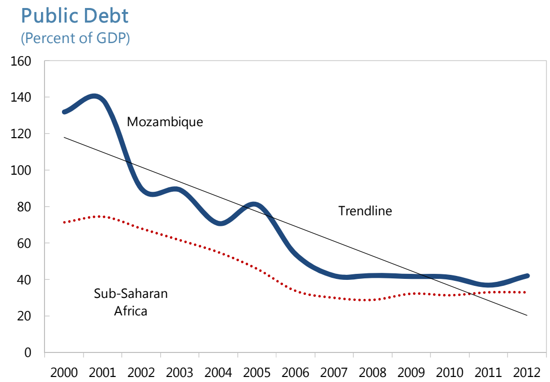
Box 2.2 Macroeconomic and Fiscal Context

Mozambique has been one of the fastest growing economies in sub-Saharan Africa over the last two decades. Supported by agriculture, capital-intensive megaprojects and substantial official development assistance, economic growth averaged 7.5 percent over the period 2002-11, consistently outperforming the Sub-Saharan African average. As the result, living standards greatly improved and GDP per capita tripled since 1992 (in US dollar terms).

Strong Growth Record



Improved Debt Position



Source: Mozambican authorities and IMF staff estimates and projections (Country Report No. 13/1).

This performance has been anchored on sound macroeconomic management and structural reforms, leading to an equally impressive record of macroeconomic stability, and making the country a prime example of a mature stabilizer. Thanks to the HIPC/MDRI debt relief and prudent macroeconomic policies monitored under the IMF's Policy Support Instrument (PSI), strong economic growth has been also accompanied by low inflation, comfortable international reserves, and a sustainable debt position.

Although the growth trend has moderated somewhat in recent years, the country managed to limit the impact of the global crisis during 2008-09. The ongoing global turmoil dampened growth temporarily, but the economic outlook continues to remain positive: real GDP growth is projected to reach 7.5-8 percent over the medium-term, on account of new activity in the natural resource sector and stepped-up public investment (IMF, Country Report No. 13/1).

In the meantime, Mozambique has made great strides in fiscal management. The government has shown an impressive track record in mobilizing fiscal revenues through tax administration reforms, by expanding the tax base and strengthening the capacity of the tax authority. Public Financial Management (PFM) reforms have helped to improve the efficiency and the execution of the budget. As the infrastructure gap is still substantial, the need for public spending is large. Going forward, as aid flows are likely to decline over the medium term, the government's challenge is to maintain fiscal sustainability while creating the fiscal space for the priorities under the PARP.

2.2.2 Poverty and the labour market structure

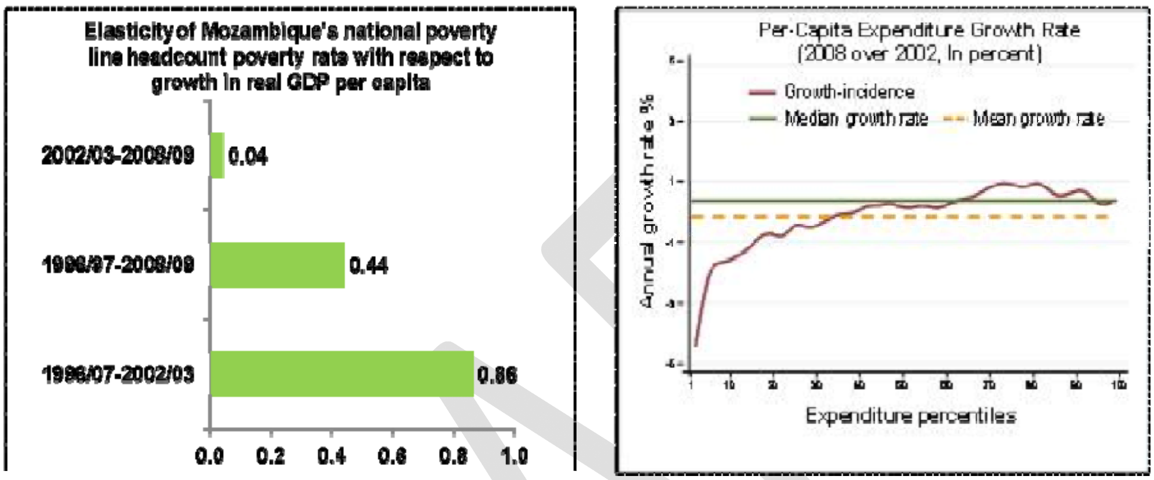
Despite this strong macroeconomic track record, poverty reduction has not been proportional to the economic growth in recent years. The recent National Poverty Assessment Report (MPD, 2010) shows that no improvement has been achieved in eradicating poverty between 2003 and 2008. The rate of absolute poverty stagnated and remained at a high 54.7 percent in 2008/09 (MPD, 2010). The authorities attributed the halt in poverty reduction to three main factors: (i) very slow productivity growth in the production of key staple crops, with a direct impact on food security and on the income of the majority of the population that depend on agricultural production; (ii) the vulnerability of agricultural production to weather shocks and seasonality patterns in the distribution of rural income; and (iii) the impact of international food and fuel prices that had a serious impact in the cost of living. These trends have also contributed to increasing social tensions that resulted in urban riots in 2008 and 2010.

Not only has growth in Mozambique been less pro-poor than in other countries in the region, but the incidence of growth on poverty has declined over time. Social inequalities have also increased.
The lack of correlation between economic growth and poverty reduction is very closely related to the country's labour market structure. Similar to other countries in the region, Mozambique has experienced a

"jobless growth", with the labour market offering limited job opportunities and most households depending on subsistence farming. The economically active population is estimated at around 11 million people (ILO, 2011), of which the vast majority (more than 60 percent) are self-employed, around a quarter are unpaid family workers, and only 10 percent are salaried employees (4.1 percent civil servants and 6.8 percent in the private sector) (ILO, 2011). Around three quarters of the work force is engaged in the informal economy and a similar proportion works in agriculture, in the vast majority of cases as subsistence farmers (INE, 2004).

On the other hand, more productive employment opportunities have been mostly concentrated in the capital-intensive mega-projects, leading to a growth take-off that has not been accompanied by economic diversification (IMF, 2011).

Figure 2.1 Poverty Record not Proportional to Economic Growth



Source: GoM and IMF (2011).

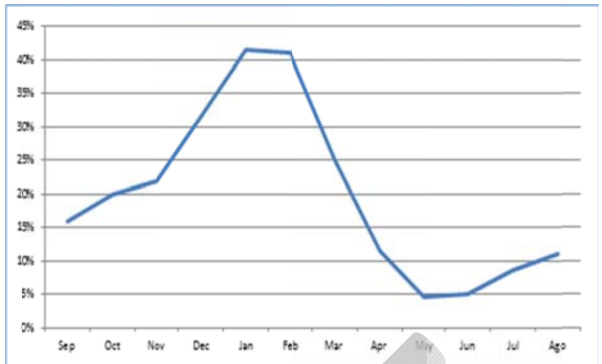
2.2.3 Vulnerability Analysis

The most recent household budget survey data (IOF 2008/09) indicates a high degree of vulnerability of households to aggregate and idiosyncratic shocks, resulting from a mix of high exposure to risks and the lack of capacity and mechanisms to deal with them.

In terms of aggregate risks, the country is highly exposed to weather related shocks (like droughts, cyclones and floods) and external economic shocks (like the variations in fuel or food prices and local economic downturns). Especially in rural areas small productivity gains can easily be lost by adverse external factor leading to crop loss.

Seasonality is one of the main drivers of food insecurity that according to WFP estimates affects about 20 percent of the Mozambican population (WFP, 2010). Food insecurity increases sharply between October and February (1.1.1.1.1.1.12); climate plays a major role, particularly in areas more prone to drought.

1. Percentage of Households Reporting Food Shortages, Mozambique



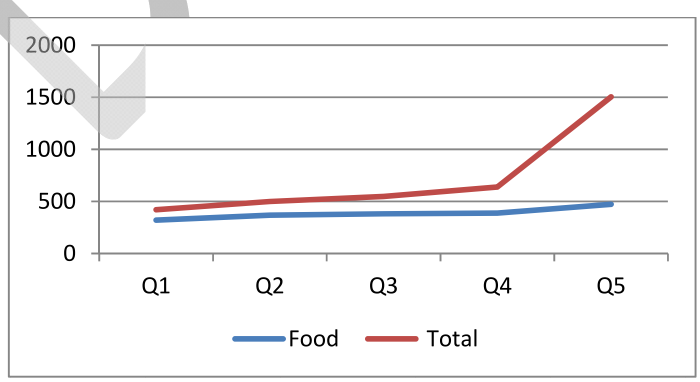
Source: Azzarri et al. (2011), based on IOF 2008/09

Moreover, there is a strong correlation between food insecurity, poverty, and lack of assets (WFP, 2010b), as well as between the high prevalence of chronic malnutrition (around 44 percent according to INE, 2008), lack of information and low coverage of public health services.

Idiosyncratic shocks are mainly related to households' demographic structure and constraints to the participation in the labour market of potential breadwinners. In 2010, the national HIV prevalence rate was 11.5 percent, (INE/MISAU, 2010). The higher rates of infection are associated with increased labour mobility, urbanization, and the phenomenon of feminization of the epidemic, which leaves a growing number of orphans and vulnerable children as well as a huge loss of skilled people, leading to a reduction in the workforce (WB, 2008).

Indeed, a key feature of the Mozambican population is the widespread diffusion of poverty and vulnerability. Not only are poverty rates very high in general, with regional peaks of 70.5 percent in regions like Zambezia (MPD, 2010), but the fact of having a high percentage of the population close to the poverty line leaves a much larger share of Mozambicans very vulnerable to small variations in income, either seasonal or annual.[9] The WB's Social Protection Assessment (WB, 2012) shows that there is little difference in food and non–food average consumption levels across the first four wealth quintiles (Figure 2.13).[10] This situation makes it difficult to use income/consumption/asset-based indicators to differentiate among individuals for targeting purposes. Still, it calls for actions to strengthen mechanisms to help households deal with risks and to promote the social and economic inclusion of the poor.

Figure 2.1 Food and Total Consumption (Mts. per capita per month)



Source: WB (2012) on the basis of IOF 2008/09

[9] According to the WB Social Protection Assessment (WB, 2012) on the basis of the latest IOF, 60 percent of all Mozambicans fall below the poverty line plus 10 percent, and two-thirds below the poverty line plus 25 percent.

[10] A similar result is obtained when looking at the distribution by consumption quintiles.

2.2.4 Existing Social Protection Legal and Policy Framework

One of the advantages Mozambique has in the development of a national SPF is the existence of a broad and comprehensive social security legal framework. This framework has two key legal components: the Social Protection Law (Law 4/2007), the Basic Social Security Regulation (Decree no. 85/2009) guided by the National Strategy for Basic Social Security (ENSSB), and a new Strategic Operational Plan for Basic Social Security programs.

Enacted in 2007, the Social Protection Law establishes the grounds for the organization of the social protection system. The Law defines the main components of the system, organizing it in three pillars that are aligned with the core elements of the Social Protection staircase (Box 2.3 and creates the basis for a different set of funding mechanisms (tax- and insurance-based).

As part of the efforts to developing the first pillar of the Social Protection Law, in December 2009 the Government approved the Basic Social Security Regulation (Decree no. 85/2009). This regulation establishes the social protection rights of the most vulnerable groups and organizes Basic Social Security in four different areas of intervention:

- **Direct Social Action**: managed by MMAS, this intervention is comprised of social transfers used to address the needs of the most vulnerable and destitute households (older people, people with disabilities, those who are chronically ill, and households with orphans and vulnerable children) and to respond to situations of permanent and transitory vulnerability.
- **Health Social Action**: managed by the Ministry of Health, this intervention assures the universal access of the most vulnerable populations to primary health care;
- **Education Social Action**: managed by the Ministry of Education, this action promotes the participation of the most vulnerable populations in the education system; and
- **Productive Social Action**: jointly managed by different sectors, this intervention aims to promote the economic inclusion of households living in absolute poverty, but with residual capacity to participate in the labour market.#

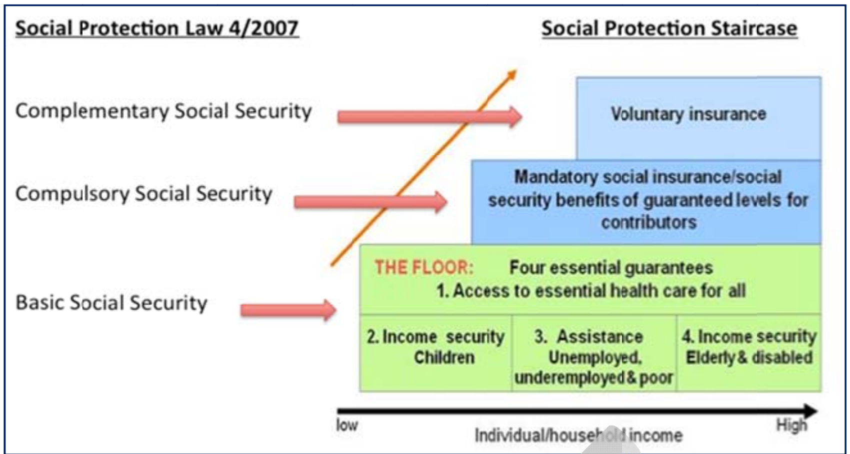
With the exception of the area of Productive Social Action, most Basic Social Security areas are heavily targeted at households facing a situation of permanent vulnerability related to their more structural poverty nature. Productive Social Action programs, on the other hand, aim at targeting more closely individuals facing shocks that would lead them to face a situation of transient poverty.

Box 2.3 Mozambique's Social Protection Law : Three Pillars

The first pillar - Basic Social Security - covers national citizens with no means, and provides assistance to fulfil their basic needs and promote their social integration. This pillar, whose distributive characteristics are based on the concept of national solidarity, is mostly funded by the State budget. The ministry in charge of Social Affairs (currently MMAS) is responsible for the coordination of this first pillar.

The second pillar - Obligatory Social Security - comprises the benefits associated with compulsory social insurance and other contributory mechanisms. The institution in charge of the administration of this pillar is the National Institute of Social Security (INSS), which falls under the tutelage of the Ministry of Labour. INSS was created 20 years ago and has covered resident waged workers in the private sector since then, even if the legal coverage was extended to self-employed in 2007. The pillar also comprises a sub-system for civil servants (including military), which is under the responsibility of the Ministry of Finance. The pillar currently allows for a series of benefits: old-age, survival, invalidity, sickness and maternity benefits, hospitalization, and allowances for burial expenses (Mausse, 2011).

The third pillar is Complementary Social Security, which was created to cover the private mechanisms that complement the benefits under the obligatory pillar, but up to now no specific regulation or mechanisms were developed.



Source ILO (2011a)

In 2010, the Government approved the National Strategy for Basic Social Security (ENSSB). This strategy sets three main objectives for the period 2010-2014: a) extending the coverage and the impact of interventions; b) increasing the system's efficiency; c) assuring the coordination of different programmes and services. Reinforcing the linkages between basic social security and the socio-economic developmental efforts of the country, the ENSSB defines a set of important principles: universality, progressivity, equity, inclusion, multi-sectoriality, efficiency, solidarity, subsidiarity, participation and accountability.[11] The concept of universality, together with the idea of gradual extension of the coverage according to the country capacity, and the comprehensive set up around the four sectorial pillars mentioned above (direct, health, education and productive social action), make the ENSSB a first important step towards the implementation of a Mozambican Social Protection Floor in line with international standards.

Finally, in September 2011 the Council of Ministers approved a new Strategic Operational Plan for Basic Social Security programs. This Operational Plan will be the basis for the implementation of the ENSSB in the area of Direct Social Action and Productive Social Action for the period 2012-2014. It revisits lines of action and projections included in the ENSSB and provides for a more coherent policy framework to proceed to the overall expansion and consolidation of the system designed around the following programs:

- **The Basic Social Subsidy Program (PSSB)**. A cash transfer program targeting extremely poor households in which no adult is able to work (i.e., households headed by the elderly or by persons with disabilities).

1. **The Productive Social Action Program (PASP)**. It consists of direct employment in public-works projects aimed at building or upgrading infrastructure in poor and vulnerable communities, and by providing training programs and other educational opportunities. The PASP focuses on extremely poor households in which one or more adults are able to work, but face limited employment or income-generation prospects.
2. **The Direct Social Action Program (PASD),** which provides short-term support to households that are temporarily vulnerable.

[11] Other important aspect of the ENSSB is to place the household at the heart of the system. According to the ENSSB the benefits under any social protection programme will need to be seen as a benefit to all household members. The eligibility will therefore depend on the vulnerability of the Household as a whole, even if the particular situation of one member of the household can be the entry point for the identification of a household. This also an attempt to relate the transfer amounts to the household size and demographic characteristics.

2.2.5 Social Protection Effective Coverage[12]

Despite the supportive legal framework, the effective coverage of the three social protection pillars is still extremely limited.

Little coverage of contributory schemes is of course a direct consequence of the nature of the labour market (the weight of the informal economy and subsistence farming) and the young nature of the system.[13]

Social Insurance is restricted to resident (including foreign) salaried workers, civil servants and military officials and their families. The percentage of workers that were covered by Social Insurance in 2011 was only 4.3% of the Economically Active Population (EAP).[14] The old-age pensions covered around 12% of the total population with 60 or plus in 2012.[15] The other short term benefits provided by INSS (including sickness, survival and funeral grants) reached less than 10,000 workers.

Given the set of constraints that the country faces, strengthening and extending non-contributory social protection mechanisms towards the implementation of a national Social Protection Floor appears to be an effective and efficient option to secure adequate protection to the majority of the population, as reflected by recent government decisions.

2.2.5.1 Main Basic Social Security Programmes: state of the sector prior to the recent reform

This section presents a brief outline of the main social protection programs operating in Mozambique prior to the recent reform.[16] The analysis focuses on interventions that are closer to the definition of the four basic social security guarantees that constitute the core of national social protection floors, as set out in Recommendation No. 202[17], and more particularly the guarantees of basic income security, implemented in Mozambique by INAS, and which correspond to the Direct Social Action and part of the Productive Social Action.[18]

[12] This section introduces some basic information regarding the coverage provided by each pillar. For further details the authors advise the consultation of the World Bank recent Social Protection Assessment (WB, 2011) and the ILO Diagnosis of the National Institute of Social Security.

[13] Interestingly, the legal coverage of INSS was extended to self-employed in 2007, but still there is no operational translation of this juridical measure and therefore no practical coverage of self-employed through social insurance.

[14] ILO own calculations based on a forthcoming Actuarial Study. The *economically active population* comprises all persons of either sex who furnish the supply of labour for the production of goods and services during a specified time-reference period (ILO, www.laborsta.ilo.org). In 2012 the number of insured workers that are expected to contribute to INSS are 311,484 and 222,710 for the Civil Servants Scheme (ILO, forthcoming).

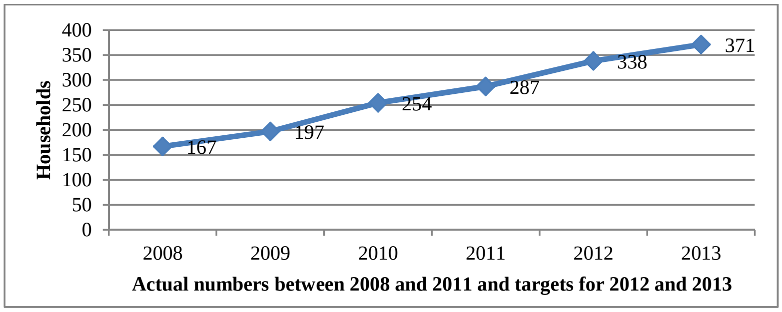
[15] It is expected a total of 167,187 pensioners in 2012, 50% of them being Military; 25% civil servants and 25% from private sector.

[16] The analysis is based on information produced under the World Bank recent Social Protection Assessment which compiles information on the cost, coverage, generosity, targeting efficiency and cost effectiveness of the main programmes operating in the area of social assistance. A recent study for UNICEF (OPM, 2010a) also provides useful insights and analysis of existing social protection programs. For further information on the coverage provided by other programs (not operated by INAS) please consult the World Bank Social Protection Assessment (WB, 2012).

[17] Recommendation No. 202, para. 5.

[18] The guarantee of access to essential health care is left out of the current analysis, as programs are managed by other sectors and were not targeted by the reform reported by this document.For further information on Health Expenditures and Programs managed by other sectors, please consult the World Bank Social Protection Assessment (WB, 2012)

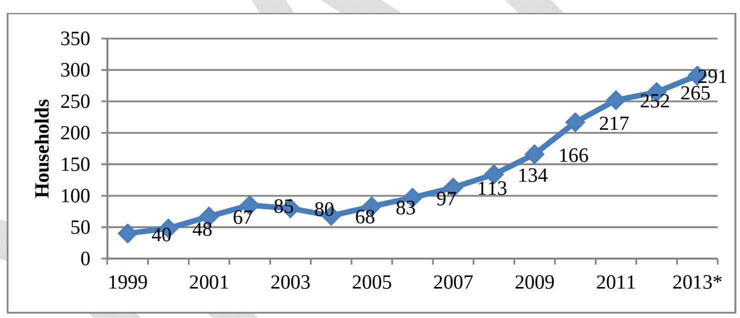
Figure 2.2 Coverage of Basic Social Security programs (households, in thousands)



Source: INAS Reports and Social and Economic Plan (PES) 2011 and 2012

As can be seen in Figure 2.4 there has been a positive trend in terms of number of households covered by the Direct Social Action Programs (INAS Programs) since 2008. The most representative program is the formerly denominated **Programa Subsidio de Alimentos (PSA)**[19], the largest social transfer program in Mozambique and one of the longest established, government-funded in Sub-Saharan Africa. Despite its name, the PSA is an unconditional cash transfer that provides cash support to households that are labour-constrained and thus have no or very little productive capacity. After a long period of stagnation in the number of beneficiaries between 2002 and 2007, the programme has expanded quite rapidly over the past few years reaching an estimated 265,000 direct and 495,000 indirect beneficiaries in 2012 (Figure 2.3). It has national coverage, with presence in all the 128 Districts of the country, and until 2008 it was fully funded with domestic resources. The vast majority of beneficiaries (almost 95%) are elderly.

Figure 2.3 Evolution of the number of PSA beneficiary households (thousands)



Source: INAS Reports (2013 figure is target).

19 Recently renamed as Programa Subsídio Social Básico (PSSB).

Box 2.4 Assessment of the Food Subsidy Program - PSA

The PSA is seen by INAS, MMAS as well as some donors, as the foundation from which a larger and more comprehensive social transfer programme can be built to reduce the vulnerability of the poor in Mozambique. However, a recent study commissioned by UNICEF (OPM, 2011b) highlights the following areas of concern with its design and implementation that are going to be addressed with the recent reform:

Low coverage. Despite its expansion in the past few years, the PSA reaches only a subset of the eligible households. The programme operates in all Districts and all *Postos Administrativos* in the country, but not in all communities. Unfortunately there is no consolidated information on the proportion of eligible households covered to date.[20]

Restrictive categorical targeting. At present, the programme focuses mainly on the destitute elderly. PSA coverage of the disabled and chronically ill is almost negligible. Indeed, with a few exceptions, the PSA was effectively a type of old age pension targeted at poor elderly household heads, while also to a limited extent taking into account household size. The categorical focus of the PSA originates from the focus on households that are labour-constrained and is seen as socially acceptable. Bearing in mind that until recently this was the only basic social security intervention with significant coverage, one would conclude that it gave the system a somewhat narrow approach, since it excluded many of the ultra-vulnerable. This has now been revised with the introduction of new programmes in the recent reform.

Weak economic targeting. Officially eligibility is restricted to households with *earned* income of less than MT 100 per capita per month.[21] However the procedures are not clearly spelled out in the Manual and in practice it seems that much is left to the interpretation of INAS staff.

Insufficient inclusion of vulnerable children. The enrolment of children as secondary beneficiaries in the PSA is very low. Besides the fact that the total coverage of the programme is still relatively small, there appears to have been a bias towards the selection of smaller households, with few or no children, particularly in the most recent phase of programme expansion. Moreover, even within households that are currently receiving the PSA, it seems that many children who should be eligible for the supplementary benefit as secondary beneficiaries are not in fact registered in the programme. This likely due to a combination of problems with lack of documentation (birth registration), financial incentives at the INAS delegation level and the strict interpretation of the operational manual.[22]

Progressive erosion of real transfer value. According to the 1993 decree on the PSA, the transfer is supposed to be 30% of the minimum wage. In practice, the amount has not been adjusted in line with the minimum wage and the value of PSA transfers has been eroded by inflation. The PSA transfer for primary beneficiaries was in 2011 less than 6% of the minimum wage. Several studies (Collier & MacAskill, 2005; Taimo & Waterhouse, 2007; Ellis et al, 2009) have proposed raising the amount of the PSA transfer and implementing in practice its intended link to a proportion of the minimum wage, for example through indexation. Despite the inadequacy of the amount, it is nevertheless important to mention the fact that in recent years the amount has been increased from 70 Mts in 2007 to 130 Mts in 2011, including also an increase in the amount transferred to the dependents. More recently the government approved an increase of the transfer amount of the now denominated PSSB to 250 Mts for a household with one member (25% per each additional dependent), what represents 10% of the current minimum wage.

[20] Initially an urban programme, the PSA has been extended to rural areas and now covers all provinces and districts, although not yet all communities within them.

[21] Strict application of this guideline in the Procedures Manual would lead to the perverse result (at 2002/03 consumption expenditure levels) that about half (51%) of eligible households would be non-poor (OPM, 2011). This is due to the fact that the income criterion does not take into account the value of own production/consumption or of informal private transfers from other households, which is generally much higher than earned income.

[22] It is ambiguous whether children must be orphans of both parents or of only one. Some other children (e.g., abandoned children) may also be eligible. The guiding principle is that, to qualify as a secondary beneficiary, a child should not have a living parent who either does or could provide material support.

Under the umbrella of the **Programa de Apoio Social Directo (PASD)** INAS delegations currently gather a series of heterogeneous interventions aimed at providing immediate or short-term material help to destitute individuals in a situation of absolute poverty (e.g. orphans, malnourished children, abandoned children, twin children in need, child heads of household, malnourished pregnant women, chronically ill in bed[23], victims of natural disasters and other serious unexpected incidents). Support is provided mostly in kind, but can be also take the form of financial help or psychosocial services. A final and small component within the Direct Social Action pillar are the **Social Units**, institutional and residential care services provided to poor and vulnerable individuals, who are living in absolute poverty and have been abandoned or marginalized.

Box 2.5 Assessment of the PASD

The need to revisit PASD objectives and operation in order to convert it in a functional component of the system is acknowledged by MMAS/INAS and shared by international partners. Despite consensus on the need to reform the programme, the pace of change has been extremely slow both at the central level (the revision of the Manual of operation is still pending) and at the delegation level (generally attached to a traditional view about the objectives and implementation modalities). Weaknesses of the program has been highlighted on several grounds:

Lack of focus. Comprising a too heterogeneous set of potential beneficiaries and means of support, the programme effect is too dispersed and incidence is limited. It is basically conceived by INAS delegations as a form of last resort emergency support (generally in kind) that is distributed "on demand" or on a case by case bases, until funds are available. In recent years most of the budget has been spend on providing nutrition support (artificial milk) to malnourished children.

Systemic underfunding and unclear prioritization guidelines. Fund allocation has historically been erratic and remarkably small vis-a-vis the needs of the broad target population. INAS delegation do not have clear indications as to how to prioritize resources across the multiple lines of action. There is little spending planning, as spending decisions seem to follow from events and beneficiaries attended on a "first come first served" basis.

Unclear targeting rules. There is no proactive and systematic targeting. Beneficiary selection takes place largely through individual case assessments.

Low coverage. PASD is a national program but the actual coverage is extremely low.

Initiatives in the area of **Productive Social Action** for households with residual productive capacity have been undertaken in the past by MMAS/INAS in an un-systematic way. There has been a tendency or INAS to attempt at providing "graduation" from poverty in isolation, rather than in coordination with other agencies and government institution. This led to the setting up of small programs (**Geração de Rendimentos**; **Beneficio Social pelo Trabalho**) that could concentrate relatively large benefits only on a very small beneficiary population. This strategy has proved overall largely un-effective.

[23] As opposed to chronically ill non-in-bed who are currently attended via the PSA.

Box 2.6 INAS and Productive Social Action Programs

Supporting households along a developing pathway of promotion out of poverty and vulnerability requires the coordination of multi-sector actions (e.g. access to health and education, financial literacy, agricultural development, infrastructure, etc.) within a comprehensive development and poverty reduction plan and falls ultimately under the responsibility of the Government as a whole.

In the past INAS' approach has been to concentrate large benefits on few households (including the provision of microcredits) hence maximising the need of a direct sustainable impact and avoiding the complexity of inter-institutional coordination. This strategy has proved overall largely un-effective, as it provided means of protection and promotion in a fragmented way, lacking systemic focus and leaving uncovered the vast majority of poor and vulnerable households.

With the new Operational Plan the approach to delivering Productive Social Action has switched, following the idea that INAS mandate should consist of providing a minimal (income) protection ground, more uniformly and with broader coverage, while at the same time predisposing the necessary linkages so that other agencies/ministries can join efforts and bring in other components more oriented towards income promotion and asset/capital accumulation. According to this view, the role of MMAS/INAS with the new Productive Social Action Programme (PASP) can be seen as providing the first step of the ladder out of poverty (income security) to a large number of households in a systematic way, rather than the whole ladder to few households.

2.2.6 Social Protection Budget [24]

According to the WB assessment (WB, 2012) Mozambique spent 3.7% of GDP on Social Protection in 2010. This includes both the contributory (2%)[25] and non-contributory (1.7%) pillars. Based on a cross-county comparison the WB concludes that overall Social Protection expenditure in Mozambique is lower than the average of other countries (Table 2.2).[26]

Table 2.2 Country Expenditures in Social Sectors (% of GDP) – 2010

Country	Social Protection			Education	Health	Total
	Social Insurance	Social Assistance	Total SP			
Mozambique	2.0	1.7	**3.7**	**5.7**	**2.3**	**11.7**
Regional Average	1.5	3.1	**4.3**	**4.7**	**2.5**	**11.5**

Source: WB (2012)

Moreover, the budget allocation to social protection is currently biased by the high investment in non pro-poor transfers - like is the case of the Fuel Subsidy, an extremely regressive type of subsidy that has been disregarded in the budget analysis here, but corresponded to 1.4% of GDP in 2010 (WB, 2011).

For the purposes of understanding the context of the reform introduced by the new Operational Plan, the budget figures reported here centre on the cost of non-contributory programs managed by INAS that are closer to the definition of the guarantees of the SPF in terms of income security. The total budget allocated to Basic Social Security programmes have ranged between 0.16% and 0.25% of GDP between 2008 and 2012 (Table 2.3), including transfer costs and administrative costs estimated at around 30% of the transfer costs.

[24] It is not the purpose of this document to provide an exhaustive social protection expenditure review. See WB (2012) for a more exhaustive analysis of this topic.

[25] The amounts spent on Social Insurance are expected to decrease to 1,7% of GDP in 2012, being 55% for INSS beneficiaries, 0.54% to the civil servants and 0.67% to the former military.

[26] The WB document from which these figures were taken (WB, 2012) is in a draft version. The way that expenditures are currently classified in the National Budget increases the always complex process of carrying out an analysis of Social Protection expenditures. In this context, it is even more challenging to get a consensus in what expenditures should or should not be classified as Social Protection. Some of the expenditures that were included in the WB assessment can be questioned if should or not be classified under Social Protection, and therefore the amount can be different to the one presented here. Further work with the Ministry of Finance and line ministries involved in Social Protection is needed to clarify the classification.

Table 2.3 Nominal Expenditure in Basic Social Security Programs (Millions Mts.)

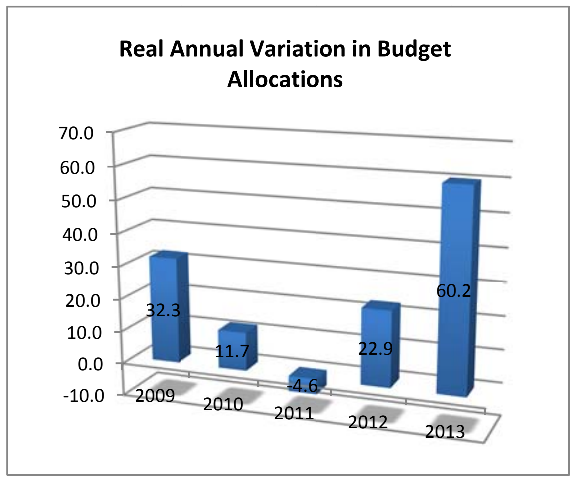
	2008	2009	2010	2011	2012*	2013*
INAS Programs	386	487	704	717	1059	1667
TOTAL (as a percentage of GDP)	0.16%	0.18%	0.22%	0.19%	0.25%	0,35%

Source: INAS Reports and author's estimation

Although donor financial support (DFID and Netherlands) has become available to INAS in recent years, the funding of existing programmes remains primarily domestic.[27] This distinguishes the programme from many pilot cash transfer programmes in Sub-Saharan Africa - that are primarily or entirely funded by donors - and contributes to ensuring its long-term sustainability. In 2011, the contribution from international partners was 165 million Mts., around 30% of the total budget of the PSA.

Figure 2.4 shows that the budget allocations to the INAS programmes has increased steadily since 2008. This positive historical trend in allocations permitted an increase in the number of PSA beneficiary households, and an increase in the base PSA benefit amount from 70 Mts. in 2007, to 100 Mts. in 2008 130 Mts. in 2011 and 250 Mts for 2013.[28]

Figure 2.4 Budget allocation of INAS Programs and its annual real variation, 2008-2012



Source: INAS Annual Reports , UNICEF/FDC Social Action Budget Brief (2011), PES 2012, Budget Proposal for 2013

This allocation is still extremely low given the extent of the coverage gaps. Once again, and looking at the problem of fragmentation, it is also advisable for the Government to look carefully at expenditures that despite being Social Protection are implemented by other institutions, particularly those that have a very limited coverage in terms of the number of beneficiaries and reduced impact. A strategy of concentration in some priority programs could increase effectiveness and efficiency in the system as a whole.

Table 2.4 further provides some insights into MMAS and INAS institutional spending, besides the programme costs. It clearly points to the fact that recurrent and investment costs have been in some years higher than program costs. The positive fact is that this relationship is changing: MMAS and INAS running and investment costs have moved from representing 139% of the transfers in 2008, to 53% in 2012. Most of the efficiency savings, however, seem to have come from MMAS, rather than INAS. Without entering in an analysis on the quality and reasons for this expenditure, one must conclude that the high share of fixed and variable administrative costs is one challenge that needs to be addressed by the sector, while acknowledging that further capital investment and capacity building will be required to face the challenges posed by the implementation of new and larger programmes.

[27] Values reported in Table 2.3 include already the transfer from development partners to the PSA (DFID and Netherlands). In 2012 the Government is also implementing the Pilot for the Productive Social Action, with funding from the WB and Sweden. This is not included in the estimations presented above.

[28] Value for a household with one beneficiary. By each additional dependent the amount is increased in 25%, up to a maximum of 4 dependents.

Table 2.4 MMAS and INAS Institutional Spending, Executed Budget (Millions Mts).

	2008	2009	2010	2011	2012
MMAS	**455**	**428**	**327**	**370**	**298**
INAS	**81**	**126**	**180**	**139**	**287**
Total	**536**	**554**	**507**	**509**	**585**
Ratio Total Institutional Costs (MMAS + INAS) / INAS Program Costs	139%	114%	72%	71%	53%
Ratio INAS Institutional Costs / Program Costs	21%	26%	26%	19%	26%
Total (Institutional + Program Costs) as a % of GDP	0.22%	0.21%	0.16%	0.14%	0.14%

Source: OE e CGE 2008, 2009, 2010, 2011, 2012. INAS Reports. Note: * Within the State Budget the transfers from donors are presented as external investment. To avoid double counting, the authors subtracted the amounts from donors that were channelled to transfer.

2.2.7 Key Challenges for the Introduction of a Mozambican Social Protection Floor

One of the main challenges for social protection in Mozambique is the low coverage that the system offers as a whole (WB 2012). On the one hand, the coverage provided through social insurance mechanisms is restricted to certain categories of the economically active population. Additionally, in some cases, the already limited coverage provided by the law does not translate into effective coverage, due to gaps in implementation. The potential of social insurance mechanisms to cover a significant part of the population is thus limited, at least in the short term. On the other hand, non-contributory social protection is also affected by important coverage gaps. As the system (prior to the recent reform) was mainly centred around the PSA, the vast majority of poor households with working age members and families with children and youths are left out of the system. This in turn reflects the limited budget allocations that are made to the sector, despite the positive trend in relative years.

Moreover, program fragmentation and duplication are also a serious constraint to the development of an effective and efficient social protection system. Implemented by a large number of different governmental and non-governmental institutions, with distinct sources of funding and implementation mechanisms, most of the non-contributory programmes rarely had the dimension to ensure the impact that is expected from a social protection program. This reality translated into lack of coordination, as ad-hoc interventions were sometimes encouraged by international donors and agencies in isolation from the existing policy framework.

Other elements of concern were targeting challenges, the weakness of INAS' operational structure at the local level, high administrative costs, and a fragile case management system (Hodges and Pellerano, 2010).

A review of the basic income security guarantees defined in the SPF Recommendation, No. 202,[29] and promoted by the SFP Initiative, leads one to conclude that only basic income security for older persons, disabled and chronically ill (categories covered by the PSA) were granted (at least by design) prior to the recent reform, but only for a very specific and small group of individuals - in labour-constrained households.[30] The guarantee of basic income security for children was also only secured for children in labour constrained households, leaving uncovered the vast majority of them. Finally there was no guarantee of income for the unemployed, underemployed or temporarily unable to work (for sickness or chronic illness). Some of these elements have been improved with the provisions introduced in the new Operational Plan.[31]

[29] Recommendation No. 202, para. 5 (b), (c) and (d).

[30] In 2012 the programmes implemented by INAS did not cover more than 15% of the total poor households (taking as granted that the programmes only covered poor households, which needs to be proved). Looking at the universe of households with elderly only, the coverage was also very limited. The old-age pensioners from the contributory system did not reach more than 168'000 persons, and the PSA was limited to 265'000 households, against a potential universe of more than 1'300'000 individuals and around 900'000 households.

[31] Bearing in mind that this exercise resulted from a particular need for MMAS to budget their expansion and reorganization of its interventions, the partners opted at this stage to leave the health component of the social protection floor outside the review.

Finally, even within an ideal fiscal scenario, an enormous challenge would still lay in the operational capacity to deliver the programmes in an effective and efficient way. It is unanimously recognized that the current systems, including its human resources, the management and information systems, and the current processes of identification, selection and payment of beneficiaries, lead to excessively high administrative costs and do not offer the most up-to date solutions. Therefore, a significant effort in terms of institutional capacity building will need to take place in order to allow a progressive, sustainable and efficient coverage extension and allow the progressive extension of a SPF.

3. The current government proposal for a Mozambican Social Protection Floor

3.1 Elements and principles of the reform

Informed by the analysis of weaknesses and opportunities of the existing interventions, the reform of the Basic Social Security programmes introduced with the new Operational Plan in 2011 is oriented by few important objectives:

- The rationalization of interventions in the area of Basic Social Security with a view at establishing a comprehensive and coordinated system, as opposed to operating isolated programmes.
- The simplification of interventions to focus on a few core programmes for Basic Social Security.
- The identification of the household as the central unit for the definition of eligibility to different programmes.
- The establishment of a coherent logic and unique routing (identification and targeting) to grant access to different programmes according to the household needs, status and conditions.
- The expansion in the overall comprehensiveness and coverage of the system.
- The operationalization of the Productive Social Action (PASP) component with the introduction of a new public-works programme for vulnerable households with residual productive capacity (non labour-constrained).
- The reorganization of programmes operated by INAS for labour-constrained households (PSA and PASD) with aim at clarifying the respective domains of application and improving the generosity of transfers.
- An improved budget planning achieved by combining a more thorough analysis of fiscal space and the development of a social protection cost simulation tool.

The reform conducted was limited to the Direct Social Action and Productive Social Action dimensions of the Basic Social Security Pillar. Education and Health Social Action are still under discussion and the types of intervention are not yet defined.

On the basis of these overarching guidelines, the Operational Plan proposes to articulate the Basic Social Security system around four main programmes:

- **Programa Subsídio Social Básico (PSSB)** – A monthly cash transfers for unlimited period targeted to households without any adult able to work (e.g. households headed by an elderly person, person with disabilities or chronically ill and without any able adult breadwinner). In practice the programme consists in a revision of the PSA with increased coverage and transfer amount, and a more accurate definition of eligible households.
- **Programa de Apoio Social Directo (PASD)** – Divided into an ad-hoc component (*Componente Pontual*) and a long term-support component (*Componente de Apoio Prolongado*). It targets households who are temporarily lacking capacity to participate in the labour market (among others: child headed households; households headed by pregnant women; household with bread winners that are temporarily unable to work). It is also conceived as a means to provide support to selected groups of vulnerable households (e.g. households with children suffering from acute malnutrition, households with malnourished members receiving ART) with residual labour capacity but living in areas where the PASP (see below) is not operational, or at times of the year when the PASP is not running. The PASD will provide mainly in-kind support.
- **Social Assistance Services (Programa de Apoio às Unidades Sociais)** – Residential care and institutional support to vulnerable and a*bandoned children and elderly*, victims of violence and the homeless who require intensive care services.
- **Productive Social Action (PASP)** – A seasonal transfer associated with the participation in a labour intensive public works initiative for poor and vulnerable households with residual labour capacity (who are not entitled to receive support from the PSSB and PASD). It also envisages a component to establish linkages with interventions supporting income-generating activities (run by other ministries).

The Operational Plan describes the main design elements of the four interventions, and includes a coverage plan and a budget projection. The finetuning of specific design parameters (e.g. operational definition of target groups; poverty targeting mechanisms) is delegated to a revision of operational manuals that is currently being undertaken by INAS. Besides the identification of new programmes, INAS has also initiated a series of activities that should lead to a radical reform of all systems for programme management and implementation, including a re-engineering of processes in place for targeting, payments, financial management, case management, monitoring and evaluation. New processes should be redesigned in an integrated manner and implemented from a unique MIS platform to operate across all programmes before the end of 2013.

Table 3.1 summarizes the main features of programmes approved in the Operational Plan.

Table 3.1 Programme Design Parameters[32]

	Eligible group	Target Categories	Type of transfer	Number of payments per year (frequency)	Montly transfer value	Montly transfer amount (2013)	Additional targeting
Programa Subsidio Social Directo (PSSB)	Permanently labour constrained HHs	HHs with an elderly member (aged 55+ for females and 60+ for males) and no adult able bodies	In cash	6 (bimonthly)	1/3 of the poverty line for the main beneficiary, plus 0.25% of the main benefit for each dependent household member up to a maximum of 4 dependents	259 Mts. (main benefit) + 60 Mts. per dependent	Households in the poorest 4 quintiles of the total population
		HHs with a chronically ill member and no adult able bodies					
		HHs with a disabled member and no adult able bodies					
Programa Apoio Social Directo (PASD)	Temporarily labour constrained households + households facing shocks	Child headed HHs (where the age of the head is at least 12)	In kind	Varies (monthly)	Basic food basket (proposal to adjust composition to household size)	Average value of 985 Mts. (proposal to adjust composition to household size)	Households in the poorest 4 quintiles of the total population
		HHs with adult members temporarily unable to work and no adult able bodies					
		HHs with elderly, disabled or chronically ill members in bed and no able bodies					
		HH with adult members on TARV and severely acute malnourished					
		HHs with severely acute malnourished children					
		HHs facing a temporary shock (one-off support)		1	Varies	Varies	Not specified
Serviços Sociais de Acção Social	Household members in need of institutional care	Children in need and street children; elderly and disabled without support; victims of domestic violence and abuse; repatriated households	Institutional Care	N/A	N/A	N/A	N/A
Programa de Acção Social Produtiva (PASP)	Non labour constained households	Households with at least one adult able body Priority given to: female headed HHs; HHs with elderly, disabled or chronically ill members; HHs with malnourished children; HHs with high dependecy rates; fostering families.	Cash for work (max. 63 work hours per month)	Rural: 4 (monthly)	Value of the poverty line (fixed per household)	717 Mts.	Rural: 15% of households identified with a combination of geographical, categorical and poverty targeting
				Urban: 6 (monthly)			Rural: 25% of households identified with a combination of geographical, categorical and poverty targeting

[32] The Programme design parameters do not translate the authors' vision, but the Government options. One example is the difference between the amount transferred for PASD and PSSB beneficiaries that are a reflex of the government approach towards a permanent transfer (PSSB) and a transfer that is seen as temporary (PASD).

The mix of programmes and main design features reflect four key principles that orient the reform:

1. **Establishing an integrated and comprehensive system** where poor and vulnerable households are routed to different programmes depending on their situation and characteristics, mainly their capacity to work. Households will apply through a unified system, will be classified in three categories – a) permanently labour constrained; b) temporarily labour constrained; c) non labour constrained – and will be allocated to programmes accordingly (Table 3.2).

Table 3.2 Routes of access to the Social Protection Floor

Household Type		Type of Programme	Programme Name
Permamently labour constrained HHs	Poor HHs with elderly members and no able bodies	Long term cash transfers	*Programa Subsídio Social Básico (PSSB)*
	Poor HHs with disabled or chronically ill members and no able bodies		
	Poor HHs with members requiring intensive care (and no adult carer)	Institutional care	*Apoio às Unidades Sociais*
Temporarily labour constrained HHs	Child headed HHs	Short term in kind/cash transfer	*Programa de Apoio Social Directo (PASD)*
	Poor HHs with adults temporarily unavailable to work and no able bodies (e.g. pregnant women head of household)		
Non-labour constrained HHs	Poor HHs with at least one adult able body (not elderly, not disabled, not chronically ill, not temporarily unable to work)	Public Works	*Acção Social Produtiva (PASP)*

2. **A strict conceptual separation between actions addressed to labour constrained and non-labour-constrained households.** Given its wide support, this principle is one of the bases of the political viability of the reform. It derives from a largely supported definition of the boundaries, roles and functions of pure social assistance transfers as opposed to other social protection measures. The existence of residual capacity to work becomes the overarching principle determining household eligibility in one or another arm of the social protection system. When household have no labour capacity (because all members are children, elderly, disabled or chronically ill) they depend on informal support from family and community networks. Here the government can step in to ease the burden and provide a last resort means of subsistence (Direct Social Support). But when households have residual productive capacity, it is the government’s responsibility to enable household to fully exploit this potential (Productive Social Action).

3. **The principle that conditioning cash transfers to engagement in work activities (cash for work) is an appropriate solution to transfer resources to poor non-labour constrained households.** Transfers are seen by some as detrimental if totally unconditional, as they may dis-incentivize labour supply and are not sufficiently focussed on contributing to growth and productivity increase. This cultural and political view is deeply rooted among various influential government agencies. Conditioning transfers to the use of education and health services seems to be unfeasible on practical grounds, at least in an initial phase, due to the weaknesses of supply and service delivery systems. A public works scheme might also better respond to the prevailing policy agenda, as it is seen as opportunity to create a direct link between social protection and productivity enhancement (hence growth) in the short/medium run.

4. **The decision to target households and not individuals, using the referential individual as an entry point to cover all the household members**. This means that single individuals are covered by the system as a result of the eligibility that is determined on the basis of the household characteristics as a whole. For example, in a family with one adult able to work and one or more children, it will be through the adult participating in PASP that children will be covered. Or in a household composed by an elderly member and children only, coverage for children is provided through the benefit (PSSB) that the household receives because of the elderly. In a household that has both an elderly member and adults able to work, the elderly will be covered via the benefit received for the adults’ participation in PASP (as the households has residual labour capacity it is not eligible to the PSSB).

Compared to the pre-reform situation, the indications contained in the Operational Plan constitute a significant improvement towards the adherence to the three income security SPF guarantees:

- The income security component of the elderly, disabled and chronically ill (Guarantee d) is provided by the PSSB for members in labour constrained households, but now also indirectly extended to members of non-labour constrained households via the introduction of the PASP.
- Basic income security for children (Guarantee b) is also provided indirectly by benefitting the households via the PSSB and PASP. The main element of concern here is the fact that the PASP transfer scheme has not been set up to be adjusted to reflect the size and demographic characteristics of the household (as the PSSB), hence meaning that children in larger households will receive a lower per-capita income support with negative consequences on the grounds of equity and effectiveness.
- The re-definition of the PASD target groups constitutes an important progress towards providing some source of income security to members who cannot (due to sickness) or should not (in case of maternity) earn sufficient income (Guarantee c) for a temporary condition. However, coverage is limited to cases in which they are the only breadwinners.
- The introduction of the PASP itself is also an important step forward towards providing a basic guarantee of income security to persons in active age who are not able to earn sufficient income due to unemployment or underemployment (Guarantee c), depending on the scale and coverage levels that the new programme will achieve.

Regardless of this important progress in getting the system closer to the SPF guarantee, the system still offers an important scope for improvements if the objective is to cover the guarantees as defined in the SPF.

3.1.2 Micro-data groundings of the reform

Before discussing the coverage and fiscal projections for the four programmes it is useful to assess the rationale of the new interventions on the basis of evidence available from the latest Household Budget Survey (IOF 2008/09).

Table 3.3 presents a classification of households according to their demographic structure and labour capacity that reflects the logic underlying the Operational Plan and eligibility for different programmes.[33] Following current INAS practice, children are individuals younger than 18, and the definition of an able body comprises adults between 18 and 55 (for females) or 60 years (for males) who are not unwilling to take on some work due to a disability or a chronic illness (self-reported) and don't have a medical disability condition.[34] The representation ignores at this stage additional geographical and poverty targeting of the different interventions.

Table 3.3 Distribution of household types and household composition by household types

		Distribution of HHs			Demographic Composition				
		Total	Urban	Rural	HH size	Dep. Ratio	Avg num of children 0-17	Avg num of elderly	Avg num of disabled or chronically ill adults
perm. labour constrained	elderly, no a/b	8.1%	5.2%	9.2%	2.3	1.0	0.9	1.4	0.0
	chronic ill/disabled, no a/b	0.2%	0.2%	0.3%	2.2	1.0	1.1	0.0	1.0
temp. labour constrained	child headed	0.1%	0.2%	0.1%	1.7	1.0	1.7	0.0	0.0
	all a/b temp. unable to work	1.5%	2.4%	1.1%	4.4	0.7	2.2	0.5	0.6
non labour constrained	female headed	20.2%	18.4%	20.9%	4.1	0.6	2.5	0.3	0.1
	male headed	69.9%	73.6%	68.4%	5.1	0.5	2.7	0.1	0.0
	Total	100.0%	100.0%	100.0%	4.7	0.6	2.5	0.3	0.0

Source: Authors' calculations on IOF 2008/09. Notes: a/b stands for "able bodies".

Households permanently lacking any productive capacity, who should be covered mainly by the PSSB, represent a relatively small fraction of the total population (less than 10% of households). In this group are

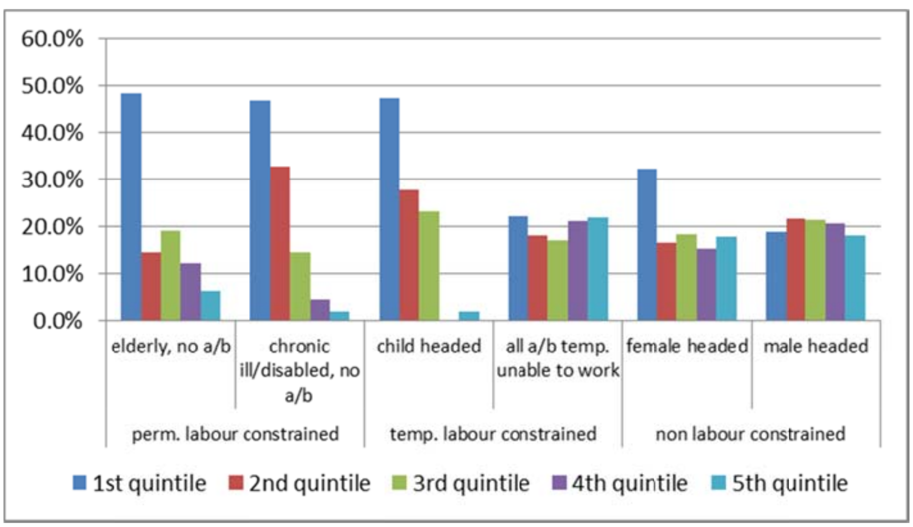
[33] The IOF provides a representation of the demographic, socioeconomic and welfare conditions of all households in Mozambique. However it must be borne in mind that statistical definitions are not exactly matching the fine letter of the manuals of operation that define eligibility and targeting rules. This is particularly true for the definitions of: child headed households, disability, chronic illness and temporary inability to work.

[34] This is different from the definition of chronic illnesses and disabilities that determine PSSB eligibility according to the current manual of operations. It is not possible to map the latter onto the IOF 08/09 data. The medical disability conditions reported in the IOF 08/09 are: blind, mute, deaf-mute, mental retardation, paralytic, amputated/atrophied arm, amputated/atrophied leg.

included HHs with elderly and no able bodies (8%) and HHs with disabled or chronically ill members and no able bodies (0.2%). It is important to note that labour constrained households (especially with elderly members) are more represented in rural areas. Permanently labour constrained households (without able bodies) are generally smaller (2.3 members on average) and contain a lower number of children than the rest of the population. Evidence however indicates that a sizeable proportion of current PSSB beneficiaries do not respect the eligibility criteria of not including an adult member able to work. In some cases, this might result from a broad interpretation of the meaning of HH with non able bodied members, in which the ability to work is replaced by some INAS officials by the ability to provide enough income to the household (see Box 2.2).

Households where all members are only temporarily unable to work should be covered via the PASD. This is an heterogeneous group and difficult to identify from the IOF data, as temporary inability to work is related to a varied set of reasons. Table 3.3 includes child headed households[35], and households with at least one member with labour capacity, who is however unable to work for a temporary impediment or constraint. Roughly 1.6 % of households would fall in this category. However this likely constitutes a downward biased estimate of the target groups of PASD, as the IOF is unsuitable to estimate some target groups, e.g. households with malnourished members on ART. It is interesting to note that temporarily labour constrained households have higher dependency ratios[36] than the rest of the population, a higher number of elderly per household and especially a higher number of disabled and chronically ill members. Caring duties are in fact a common reason of temporary inability to work.
The third category contains households where there is at least one adult member with residual labour capacity, who should be targeted to access the new Productive Social Action (PASP) programme. As it is evident the vast majority of Mozambican households (almost 90%) have at least one able member with labour capacity; slightly more than one fifth of them are female headed. Dependency ratios are higher amongst female headed households with labour capacity than in households with male able bodies.
Based on the data available in the IOF 2008/09, one can also analyse the relative welfare of households in the three categories against the overall wealth distribution in the country. In Figure 3.1 welfare quintiles were constructed on a basis of a multidimensional wealth index.

Figure 3.1 Distribution of household types by quintiles of a Wealth Index



Source: Authors' calculations on IOF 2008/09. Notes: a/b stands for "able bodies"; Population quintiles.

Labour constrained households have the largest representation in the poorest quintiles of the population distribution (to the left in the figure): about half of households with elderly members, chronically ill or disabled members and no able bodies belong to the poorest 20% of the population, and this is similar for

35 It is important to bear in mind that, due to the reduced sample size, the estimation of the proportion of households falling in these categories is likely to be imprecise. A better estimate should be obtained on the basis of the information from the latest Census.

36 Calculated here as the proportion of dependent household members (elderly, disabled, chronically ill and children) out of the total household size.

child headed households. Households temporary unable to work have also a slightly higher representation in the first quintile (22%). Amongst households with residual labour capacity, female headed households are poorer than male headed households (32% in the first quintile)

Three main conclusions can be drawn on the basis of this analysis.

First, the distribution across wealth quintiles suggests that **households who permanently lack productive capacity are largely disadvantaged with respect to the rest of the population.** The decision to assist them with long term permanent assistance seems to be well grounded. The infrastructure to provide protection and support to labour constrained households was already in place before the recent reform (mainly through the PSA), but the programme required rationalization (including a revision of its targeting criteria), significant transfer value increase and a sustained coverage expansion, in order to become a quasi-universal scheme to cover the (relatively small) number of totally labour constrained households in the country. This process have been set in motion with the introduction of the new PSSB.

Second, the **vast majority of poor and vulnerable households are not labour constrained.** About two-thirds of the poorest and most vulnerable households would not meet the specific categorical criteria of the PSA/PSSB or PASD. A new strategy to provide basic social security at national scale to this category was required as they could not be left out of the system. These households face a different set of constraints, risks and opportunities, much more interlinked to the broader national development agenda in what concerns the economic development agenda, and policies in the areas of labour market, human capital accumulation and productivity enhancement, rural development, climate shock mitigation, etc. While the “graduation” of this group from poverty cannot be considered the own mandate of INAS/MMAS, its mission can consist in providing “a first step in the ladder out of poverty”, in the form of some income protection. This is envisaged in the Operational Plan with the introduction of the new PASP.

Third, the data suggest that there is a **group of vulnerable households who are only temporarily unable to participate in the labour market** because of transitory conditions, for example pregnancy, HIV/AIDS or other serious illnesses. Not counting on any income security mechanism at time of severe hardship seems to have significant consequences on their welfare and is likely increase substantially their vulnerability in the future, if the coping strategies lead to asset or human capital depletion. The PSA/PSSB is not conceived to assist households that face a temporary or transitory condition.[37] Accessing the new PASP scheme would not be an possible for these households, due to the temporary lack of ability to work. A revised version of the PASD appears to provide sufficient flexibility (in terms of the duration and the nature of the support) to respond to the needs of these specific groups, whose characteristics and profile need to be investigated in more detail.

[37] Persons with HIV/AIDS, including those with advanced stages of the disease, are not eligible under the chronic disease criterion, since in principle they can restore their productive capacity with ART and adequate nutrition. The same applies to pregnant women.

Box 3.1 Indications for Targeting

> The analysis of the IOF 2008/09 data also provides useful insights into the options for targeting. Even if the ENSSB indicates the principle of universality, due to resource constraints some form of targeting is required to ensure that access to Basic Social Security is given with priority to households more in need among the eligible groups indicated for each of the programmes in the Operational Plan. The data suggests that additional targeting might have different functions across programmes. Only a relatively small percentage of labour constrained households (roughly 20%) belong to the richest 40% of the population. Accordingly, the PSSB (and PASD) targeting mechanisms should be aimed at excluding a relatively small group of better-off households in the target population, who should be relatively easy to identify. The situation is completely different for households with residual labour capacity. These are rather uniformly spread across the whole welfare distribution. In the case of PASP, an incisive targeting is needed to adjust to budgetary constraints. As mentioned above in the report, targeting mechanisms based on consumption poverty (e.g. a complex Proxy Means Test) are likely to be ineffective and inefficient if applied in isolation. Based on a preliminary analysis of the microdata one can conclude that complementary mechanisms may be found by exploiting geographical targeting options and refining categorical targeting to be linked with the type of engagement in the labour market (and level of formality) of household members, or the household demographic structure (e.g. dependency ratio).

3.2 Coverage and cost projections of the reform

The coverage projections included in the Operational Plan for the timeframe 2012-2014 are reported in Table 3.4 below, indicating the number of direct households beneficiaries to be reached by different programmes. While projected expansion is relatively smooth for the PSSB, in comparison to the current coverage of the PSA, the plan sets a very ambitious growth schedule for PASD, and particularly for the PASP[38]. For PSSB and PASD the reform will also imply significant targeting readjustments with respect to the current way the two interventions operate, which will not be a painless process, particularly if it involves the termination of some beneficiaries or its transfer to other programs as revised eligibility rules are introduced.

Table 3.4 Coverage levels (number of households)

	2012	*2013*	*2014*
Programa Subsidio Social Básico (PSSB)	280,244	287,637	311,238
Programa Apoio Social Directo (PASD)	37,243	46,617	58,029
Serviços Sociais de Acção Social	2,159	2,253	2,351
Programa de Acção Social Produtiva (PASP)	174,994	295,629	443,363
TOTAL	496,652	634,149	816,995

Source: Operational Plan, MMAS (2011)

The projected costs of implementing the Operational Plan are reported in Table 3.5 and were estimated using a quantitative model developed by the ILO/UNICEF - a Rapid Assessment Protocol (RAP). This model was adapted by Oxford Policy Management (OPM) and ILO to take into account the national context of Mozambique in three fundamental respects: (i) official demographic projections from the National Institute for Statistics (INE); (ii) household micro-data; (iii) IMF macroeconomic projections. More detail of the costing methodology is provided in Annex A.

Table 3.5 Estimated total cost of the current government proposal (millions Mts.)

	2012		*2013*		*2014*	
	Total Cost	**% GDP**	**Total Cost**	**% GDP**	**Total Cost**	**% GDP**
Programa Subsidio Social Directo (PSSB)	1,303	0.30	1,473	0.29	1,707	0.30
Programa Apoio Social Directo (PASD)	291	0.07	393	0.08	499	0.09
Serviços Sociais de Acção Social	54	0.01	72	0.01	86	0.01
Programa de Acção Social Produtiva (PASP)	848	0.20	1,507	0.30	2,348	0.41
TOTAL	**2,475**	**0.58**	**3,425**	**0.69**	**4,617**	**0.81**

Source: MMAS – Programs Operational Plan 2011

[38] It is expected that a substantial cost of the PASP coverage expansion will be covered with resources from partners, likely through the creation of a common funding mechanism.

Costs were estimated on the basis of the policy design parameters indicated in Table 3.1. However, for the sake of the simulation some key design elements had to be further specified, in particular:

- Poverty targeting was assumed to be based on an asset index, and the targeting mechanism was calibrated in such a way to consider as eligible: a) households belonging to the poorest 80% of the total population for PSSB and PASD; b) household belonging to the poorest 25% of the urban population and 15% of the rural population for PASP.
- Take-up rate was estimated to reach in 2014: 90% for the PSSB, 35% for PASP in rural areas, 60% for PASP in urban areas, and between 50% and 80% - depending on the category of beneficiaries - for PASD
- Administrative costs were assumed to be a fixed proportion of the total transfer value, relatively homogeneous across programmes, and high enough to reflect INAS overall programme management overheads. The fixed rate of administrative costs is assumed to reach in 2014 the level of 30 % for PSSB and PASP, and 28% for PASD. Some efficiency gains are expected to take place for PASD and PASP, with a reduction in administrative costs (down from 35% in 2012)
- The PSSB simulation assumes that an increasing proportion of elderly will be covered by contributory social security (pension), hence becoming not eligible for the non-contributory programme (3% yearly increase)
- For simplicity all transfer values are assumed to be adjusted for inflation on a yearly basis
- A note of caution should be made for the interpretation of PASD coverage and budget projections in this and the following sections of the document. Due to data limitation it was possible to perform simulation only for some of the PASD target groups (child headed households, households that are temporarily unable to work, households malnourished children) but not for others (households with malnourished members on TARV, households affected by one-off shocks). Coverage and budget projections are hence expected to be downward biased for this component.

Despite the provisions included in the Operational Plan, INAS budget allocations for 2012 and 2013 have been lower than what was the Operation Plan targets. The Budget allocated to INAS Programs was 1,005 Million Mts in 2012 and 1,667 Million Mts in 2013, i.e. roughly 40% and 49%, respectively, of what envisaged in the plan. This still represents significant annual increase in real terms (23% and 60%).

On the other hand, due to a combination of delays in designing the PASP, and the need to build additional capacity for national level programme implementation, a slower pace of programme coverage expansion is to be expected on this component, compared to what indicated in the Operational Plan. In 2012, PASP is being implemented in a pilot phase that will be funded by donors, and INAS has agreed to reschedule the abovementioned targets.

4. Expanding the Mozambican Social Protection Floor –Medium-Term Cost Simulation of Policy Alternatives

While the new Operational Plan sets important foundations to the establishment of a Social Protection Floor in Mozambique, its sustainability must be analysed in a longer time horizon at the light of the financial viability of the policy reform and the scale remaining coverage gaps.
Using the simulation tool that has been developed for the elaboration of cost projections for the Operational Plan[39], this section explores alternative scenarios of expansion of coverage of the Mozambican Social Protection Floor in a ten-year timeframe from 2012 and 2022.[40] The exercise uses the IMF fiscal space projections to relate projected costs and potentially available resources.[41] [42] Details of the methodology can be found in Annex A.

The exercise combines two objectives:

- To contribute to the on-going discussion around the potential fiscal space that can be allocated to social protection programmes in Mozambique, by measuring the fiscal impact of a potential extension of coverage of programmes approved in the Operational Plan by: a) scaling up the number of beneficiaries (mainly via increased take-up amongst the eligible); b) increasing the transfers amounts.

- To pave the way for future discussions on other potential improvements to the quality of the system and provide cost estimates for alternative programme options after 2014, including splitting the cash-transfer (PSSB) into two different components: pension and child allowance (WB, 2011).

The simulations concentrate only on the non-contributory pillar of a Social Protection Floor for Mozambique, as the prospect of expansion of contributory social insurance is uncertain at the moment.[43] The exercise introduces different solutions regarding the potential mechanisms to enhance the coverage expansion and already elicits potential operational issues regarding coverage expansion in the short to mid-term. It is important to note from the outset that the goal of the document is to determine the scope of what is financially affordable, whereas the analysis of operational viability will need a complementary exercise that cannot form part of this document. [44]

4.1 Fiscal space estimations

Crucial to determining the viability of any reform scenario with a more comprehensive social protection system in Mozambique is the identification of funding in future years.
Fiscal space, as is commonly understood, is the "room in a government´s budget that allows it to provide resources for a desired purpose without jeopardizing the sustainability of its financial position or the stability of the economy."[45] The issue of fiscal space should be examined in a medium-term fiscal framework; moreover, as the government has many competing spending needs and objectives, the use of fiscal space for one purpose may imply the delay of another project. For example, once a given budgetary envelope is

[39] The cost estimations include transfer costs plus administrative costs directly associated with program implementation (following the methodology used by the Government to measure the Program costs). The exercise does not include MMAS and INAS institutional spending, investment and capacity building costs.

[40] Furthermore, the model allows projections up to 2030.

[41] The macroeconomic framework is consistent with the one underlying Mozambique's Fifth Review under the Policy Support Instrument; see IMF Country Report 2013/1 (IMF, 2013).

[42] Assuming that from 2017 to 2022 fiscal space for Basic Social Security will remain the same in relative terms to GDP.

[43] This option results also from the fact that the forecasts in terms of increasing fiscal space result from increases in domestic revenues and do not foreseen any transfer of expenditures from contributory to non contributory sector.

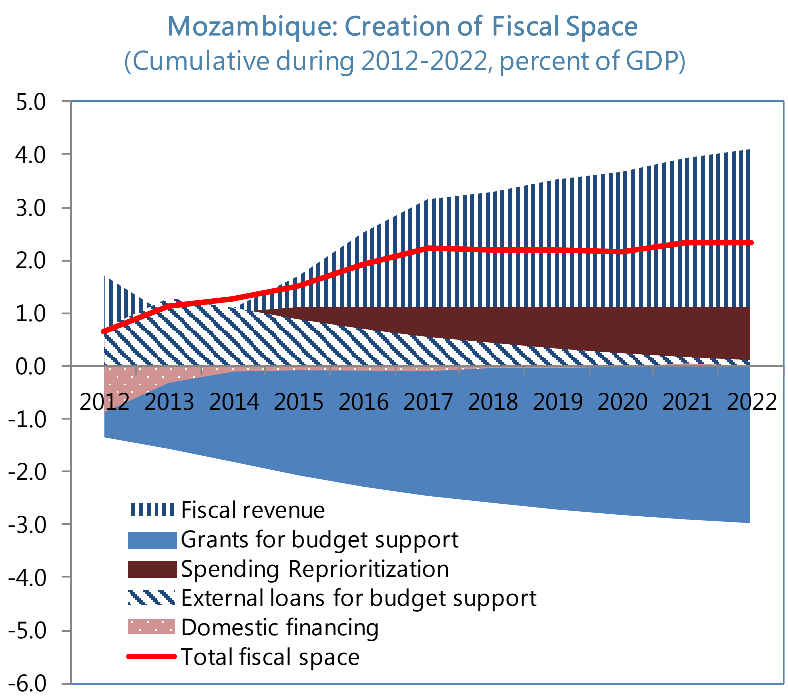
[44] Mainly the exercise shows what could be programmes coverage bearing in mind the potential existing fiscal space if operational systems would be fully able to respond to the challenges posed by this expansion.

[45] Peter Heller, "Back to Basics -- Fiscal Space: What It Is and How to Get It," *Finance and Development*, June 2005, Volume 42, Number 2, Washington D.C.

identified for a year, the dedication of more resources to social protection may imply the delay of some investment projects. This is a strategic decision that the government has to make.

In general, fiscal space can be created by either enhancing the overall spending envelope and/or by reprioritizing different types of expenditures within a given spending envelope. The overall spending envelope can be enhanced by increasing fiscal revenues, attracting more external grants, borrowing more from abroad, and tapping into domestic borrowing. As a low-income country with huge development needs, Mozambique has been very successful in creating fiscal space for its priority spending in the past. For example, the far reaching reforms in tax administration have enabled fiscal revenues to increase by 6 percent of GDP during 2008-11, and foreign aid has played a crucial role in supporting Mozambique's public investment and development projects, financing about one-third of the budget spending in 2011.

Figure 4.1 Creation of Fiscal Space



Source: IMF estimations, based on IMF Country Report No. 13/1

Going forward, revenue collection is projected to continue to rise, albeit at a slower pace; it is projected to remain the driving force for creating fiscal space. Revenue is expected to increase by 0.2 percent of GDP per annum during 2012-22.[46] As Mozambique's economy matures, grants for budget support from bilateral donors are expected to decline significantly.[47] On the other hand, budget support loans, mainly from multilateral donors such as the WB, are projected to moderate at a more gradual pace. The government is also planning to keep domestic financing limited so as to avoid crowding out the private sector. On a net basis, these factors would contribute 1.2 percent of GDP to enhancing the overall spending envelop over 2012-22, as the increase in revenue collection will more than offset the projected decline in grants. On top of this, the government also aims to reprioritize and optimize its spending programs, mainly through the phasing out of the costly and ill-targeted fuel subsidy. It accounted for 1.1 percent of GDP in 2011 and an estimated 0.6 percent in 2012—a full phasing out would free up resources for priority spending. In total, 2.3 percent of GDP in additional fiscal space could be created during 2012-22 from both mechanisms, which could be allocated to the government's priority spending programs.

Several factors could further enhance this outlook. The booming natural resource sector could provide additional resources in the medium term, providing that there are no infrastructure bottlenecks to its

[46] This is assuming no significant amount of additional revenues from the nascent natural resource sector, as there is considerate uncertainty regarding the path of natural resource revenues at this stage.

[47] For the purpose of this exercise, we only consider external grants and loans that are not specifically earmarked for investment projects.

development and the fiscal regime for the sector is modernized. In addition, donor support can be further galvanized. For example, in the social protection sector, the government is working with development partners on the establishment of a common fund to guarantee the complementary funding needed to finance the requisite investments in institutional capacity and the medium-term expansion of the beneficiaries envisaged under the programs. Nonetheless, downside risks exist as well. The creation of fiscal space hinges on the authorities' determination to push forward revenue administration reforms and spending reprioritization, including with respect to the full phasing out the fuel subsidy; any slippages in this area could hamper the fiscal outlook.

Table 4.1 Creation and Use of Fiscal Space 2011-2016

	2011	2012	2013	2014	2015	2016
			(Percent of GDP)			
Creation of fiscal space 1/						
Fiscal revenue	22.2	23.9	23.1	23.3	23.9	24.7
External grants for budget support	3.4	2.0	1.8	1.5	1.3	1.1
External loan for budget support	0.2	0.9	1.5	1.3	1.1	0.9
Domestic financing	0.9	0.0	0.6	0.8	0.8	0.8
Fuel subsidy	1.1	0.6	0.3	0.1	0.0	0.0
Total fiscal space	25.6	26.2	26.7	26.8	27.1	27.5
Outlay of fiscal space 1/						
Investment	5.7	6.0	6.4	6.5	6.8	7.2
Social protection	0.2	0.2	0.5	0.6	0.6	0.7
Other current spending	19.7	20.0	19.8	19.7	19.7	19.7
Total fiscal space used	25.6	26.2	26.7	26.8	27.1	27.5

1/ Excluding grants and loans earmarked for investment projects.
Source: IMF estimations, based on IMF Country Report No. 13/1

How much the Government could allocate to social protection programs depends on the government's objectives for the new social protection package (in competition with other spending priorities), the absorption capacity of the institutions that implement the new programs (especially at the district level), and the speed with which the government can upgrade its capacity.

Table 4.2 Total Fiscal Space Available

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
					(Percent of GDP)							
Total fiscal space	25.6	26.2	26.7	26.8	27.1	27.5	27.8	27.8	27.8	27.7	27.9	27.9

Source: IMF estimates (IMF Country Report No. 13/1)

The ENSSB already provided some projections of program coverage expansion, indicating a pace of growth of the budget of INAS programs that could lead the sector to represent between 0.37 percent and 0.89 percent of GDP in 2014. This is basically in line with the budget projections included in the Operational Plan. In the same vein, under the Government's economic program underlying the IMF-supported program that gives priority to pro-poor spending, a budget allocation of around 0.8 percent of GDP is envisaged by the Government for 2014-16.[48] Nonetheless, any expansion of social protection programs hinges on the authorities' ability to build additional capacity to expand program coverage and strengthen systems for transfer management.

[48] See the Memorandum of Economic and Financial Policies in IMF, 2012.

4.2 Scenarios – policy alternatives

4.2.1 Alternative A - The current Government proposal until 2022

This scenario proposes a comparison between the targets recently approved by the government in the Operational Plan (except accounting for mentioned delays in disbursements and implementation in 2012) and the potential fiscal space available for social protection that resulted from IMF estimations.

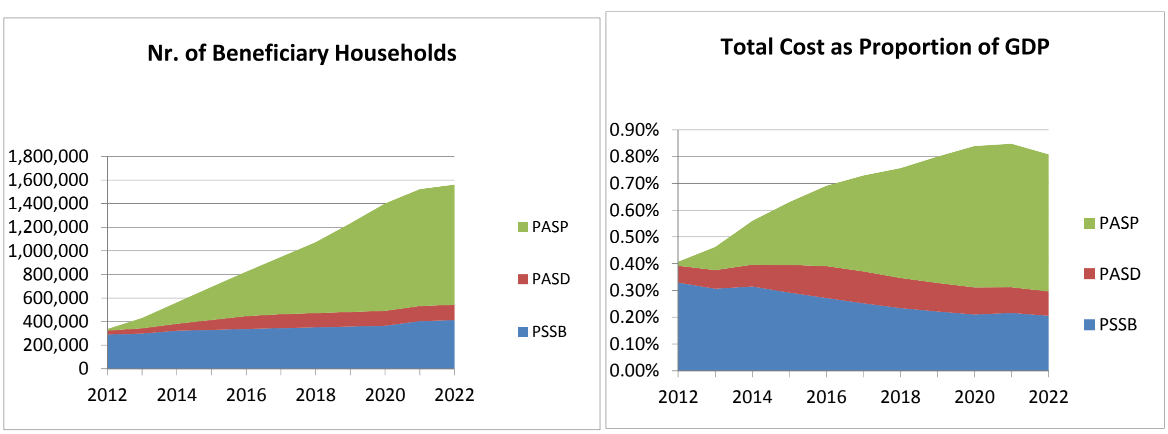
The simulation is based on the following assumption:

1. Framework approved in the operational plan up to 2014, except for a rescheduling on the PASP targets of 2 years (moving the 2014 targets up to 2016) to reflect design delays and capacity constraints.[49]
2. Same real transfer value, share of administrative cost and poverty targeting approach after 2014.
3. Take-up rate to gradually achieve 90% for all programs from 2021 onwards (no further take-up improvement is assumed beyond 90% due to natural operational constraints).
4. Year by year additional coverage increase proportional to the increase in the eligible population due to demographic transition.
5. Administrative costs of PSSB and PASD decreasing over time to reach 20% in 2022 (down from 30% and 35% estimates for 2012 respectively). PASP maintains a higher level of administrative costs (30%) due to the more complex nature of the intervention.

- For simplicity the simulation disregards the cost of Social Units and only concentrates on key beneficiary categories for the PASD.

The main coverage increase would take place in the PASP after 2016, in the form of increased take-up. Indeed, on the basis of the current reform set-up, this is the program with the major potential for coverage expansion, reaching just above one million beneficiary households in 2022. Conversely the PSSB focuses on a well-defined group of household (permanently labour constraints) who should not exceed 400,000 households (after screening out households in the highest quintile or receiving a formal pension). As for the PASD, the estimates are more tentative, as the available data do not allow identifying some of the target groups (household with malnourished members on ART). It is expected that the programme reaches about 130,000 beneficiary households at full scale.

Figure 4.2 Scenario A: Number of beneficiary households and total cost as a proportion of GDP, 2012-2022



Source: Authors' calculations on IOF 2008/09.

As presented in Figure 4.2, this expansion scenario implies a steady increase in the budget allocation that keeps costs up to a maximum of 0.85% of GDP. In 2022 the increased cost is expected to be offset in relative terms by sustained GDP growth, leading to a cost of 0.81% of GDP.

[49] Except from: a) minor improvements in the estimation of PSSB and PASD beneficiary households in relation to the definition of disability and chronic illness; b) minor revision of inflation projections according to the latest IMF forecast.

Comparing the costs associated with the government's current targets and the potential fiscal space, one can conclude that the Government has the financial capacity to reach the targets approved in September 2011 without jeopardizing its fiscal equilibrium.

Table 4.3 Outline of Scenario A

		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Number of Beneficiary Households (in 1,000)	PSSB	289,370	298,082	322,200	329,455	336,675	343,828	350,894	357,853	364,663	403,722	412,103
	PASD	34,822	44,686	58,065	83,774	109,781	117,810	120,301	122,808	125,330	127,867	130,409
	PASP	12,965	88,345	181,769	280,424	376,771	486,391	601,732	752,760	911,135	990,942	1,017,620
	Total	**337,156**	**431,113**	**562,034**	**693,652**	**823,227**	**948,028**	**1,072,927**	**1,233,421**	**1,401,127**	**1,522,530**	**1,560,132**
Total Cost (in million Mts.)	PSSB	1,364	1,383	1,534	1,539	1,542	1,543	1,543	1,573	1,603	1,775	1,812
	PASD	259	313	396	543	675	728	743	758	773	789	804
	PASP	65	392	800	1,236	1,705	2,193	2,707	3,358	4,042	4,402	4,528
	Total	**1,688**	**2,088**	**2,731**	**3,317**	**3,922**	**4,464**	**4,993**	**5,689**	**6,418**	**6,966**	**7,143**
Cost as a % of GDP	PSSB	0.33%	0.31%	0.31%	0.29%	0.27%	0.25%	0.23%	0.22%	0.21%	0.22%	0.21%
	PASD	0.06%	0.07%	0.08%	0.10%	0.12%	0.12%	0.11%	0.11%	0.10%	0.10%	0.09%
	PASP	0.02%	0.09%	0.16%	0.23%	0.30%	0.36%	0.41%	0.47%	0.53%	0.54%	0.51%
	Total	**0.41%**	**0.46%**	**0.56%**	**0.63%**	**0.69%**	**0.73%**	**0.76%**	**0.80%**	**0.84%**	**0.85%**	**0.81%**

Source: Authors' calculations on IOF 2008/09.

This baseline scenario is consistent with the IMF's medium-term fiscal framework for 2012-17 and debt sustainability analysis with a longer time horizon, leaving room for investment and other important spending categories. For the outer years, the government will need to regularly assess the costing and affordability of increasing the amount of the existing transfers that will generate improvements in the living conditions of beneficiaries, taking into account the progress made in capacity building and capital investment for service delivery.

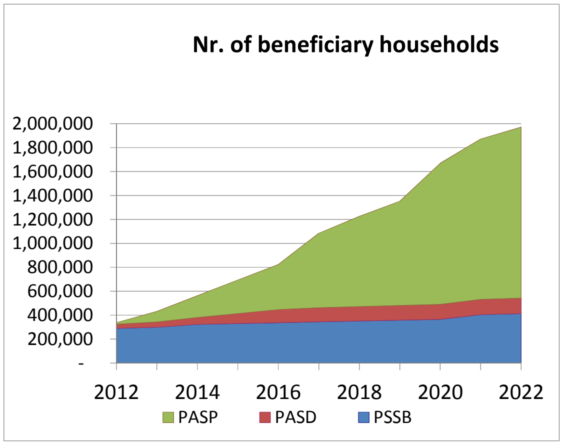
4.2.2 Alternative B – Enhanced government proposal

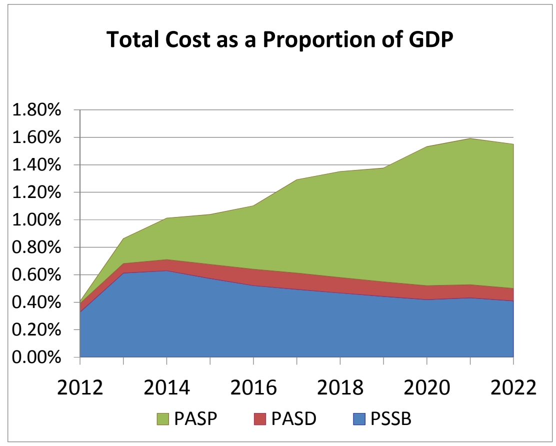
Scenario B estimates what would be the fiscal space needed for a more ambitious expansion plan. The simulation is based on the assumption of an increase (after 2012) in the transfer amount to turn PSSB and PASP more effective, as well as to expand coverage of PASP in urban areas (after 2016).

The first objective is achieved by raising the base amount of the PSSB transfer (2/3 of the poverty line), and revising the payment schedule of PASP to better reflect the demographic composition of beneficiary households with the introduction of the same payment mechanism as PSSB: a base transfer (the value of the poverty line) and a variable additional transfer linked to the number of dependent members (0.25% of base transfer per dependent, up to a maximum of 4 dependents). The new amounts are introduced in the simulation from 2013 onwards.

The second objective is reflected in expanding (after 2016) the poverty targeting criteria of the PASP in rural areas to include households in the first quartile (poorest 25%) of the population, as in urban areas. The take-up schedule is also revised to match more closely the projected available fiscal space (though take-up never exceeds 90% for all programmes).

Figure 4.3 Scenario B: Number of beneficiary households and total cost as a proportion of GDP, 2012-2022





Source: Authors' calculations on IOF 2008/09.

The main difference in the number of beneficiaries is driven by the higher coverage (in terms of poverty deciles) of PASP in urban areas. This would mean a coverage of almost 2 million households in 2022. The steep rise of total costs in 2015 is associated with the increase in real transfer values. The budget estimates are close to the higher end of the fiscal space projections (1.55% of GDP in 2022), but the scope of expansion of the non-contributory system to almost 2 million households, via an increase in the PASP, might be very ambitious, particularly given the complexities of operating a public works programme at such scale (see Box below).

Table 4.4 Outline of Scenario B

		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Number of Beneficiary Households (in 1,000)	PSSB	289	298	322	329	337	344	351	358	365	404	412
	PASD	35	45	58	84	110	118	120	123	125	128	130
	PASP	13	88	182	280	377	623	754	871	1,179	1,341	1,429
	Total	**337**	**431**	**562**	**694**	**823**	**1,084**	**1,226**	**1,352**	**1,669**	**1,872**	**1,971**
Total Cost (in million Mts.)	PSSB	1,364	2,766	3,069	3,017	2,960	3,023	3,085	3,146	3,206	3,550	3,623
	PASD	259	313	396	543	675	728	743	758	773	789	804
	PASP	65	821	1,472	1,910	2,623	4,156	5,088	5,886	7,739	8,744	9,270
	Total	**1,688**	**3,899**	**4,937**	**5,470**	**6,258**	**7,907**	**8,917**	**9,791**	**11,718**	**13,082**	**13,698**
Cost as a % of GDP	PSSB	0.33%	0.61%	0.63%	0.57%	0.52%	0.49%	0.47%	0.44%	0.42%	0.43%	0.41%
	PASD	0.06%	0.07%	0.08%	0.10%	0.12%	0.12%	0.11%	0.11%	0.10%	0.10%	0.09%
	PASP	0.02%	0.18%	0.30%	0.36%	0.46%	0.68%	0.77%	0.83%	1.01%	1.06%	1.05%
	Total	**0.41%**	**0.86%**	**1.01%**	**1.04%**	**1.10%**	**1.29%**	**1.35%**	**1.38%**	**1.53%**	**1.59%**	**1.55%**

Source: Authors' calculations on IOF 2008/09.

Box 4.1 Operational Challenges in scaling up the PASP

The operational challenges associated with the implementation of PASP at the scale proposed both in Scenario A and B will be great. Moreover, based on the existing design, the PASP will most likely have some sort of geographical targeting, hence not being operational at national level in the first years, thus limiting potential coverage gains.

In areas where the PASP will not operate, the Government can explore the use of alternative mechanisms to cover vulnerable households with residual labour capacity for special priority categories (i.e. households with pregnant women, households with members receiving ART, households with malnourished children, etc.) that cannot be covered by PASD and PSSB.[50]

The transfer to the vulnerable is the primary objective of the programmes of such kind (see for instance experience of similar projects in India or Ethiopia). If more resources will be made available to the sector, the Government might use a different expansion strategy and still reach national level targets for households with residual labour capacity. In areas where the PASP does not operate, high priority households could for instance receive a direct cash transfer (without the work component) as a complement to the current scheme of operation of PSSB or PASD.

[50] These are the categories that will be given priority in accessing the PASP where it operates.

4.2.3 Alternative C – Programme restructuring after 2015

The ENSSB runs until 2014. In normal conditions the Government will then assess the implementation of the Strategy and Operational Plan, and this might lead to policy changes. Without aiming to anticipate a debate about new programme options, the simulation tool permits exploring the fiscal implications of possible policy changes that may be considered by the Government in the system improvement.[51]

The options considered are aligned with some of the recommendations from the WB Mozambique Social Protection Assessment (WB, 2011). The document recommends that until 2014 the Government concentrates the efforts on consolidating the system, maintaining the implementation of the programs envisaged in the current Operational Plan, promoting their expansion to the set targets and investing in systems strengthening. For a second phase, it suggests using the existing basis to articulate the social protection floor around two main pillars:

- Social Pension to focus on the poor elderly, persons with disabilities and chronically ill. These correspond to categories already covered by PSSB, but the new programme would cover all households with members in such state (regardless of the fact that other members may be able to work).
- Child Benefit to focus on poor households with children (particularly partially labour constrained households, such as those with a single earner, high dependency ratio, partial or temporary incapacities, etc.) or child headed households. The programme would have the principal objective of breaking the intergenerational transmission of poverty, by improving poor families' access to food, health, education and other services.[52] This component will also include a part of the current target groups of the PASD.

The suggested programme structure would imply a shift from the current approach, delinking the allocation to alternative support mechanisms to the assessment of residual labour capacity. Within Scenarios C.1 and C.2 the transfer structure is set using the same payment schedule as the PSSB. It includes a basic monthly transfer for the first member identified (i.e. child, elderly, chronically ill or disabled), and an increase by any additional dependent member (i.e. other children, elderly, chronically ill or disabled). This maintains the logic of the current government approach that considers the whole household rather than the individual to be the recipient of social protection interventions.

In both scenarios Child Benefit and Social Pension cannot be combined, and by default households are granted access to Social Pension if they are eligible to both schemes.[53] Both scenarios also maintain a small version of the PASP project, which is conceived as an additional safety net measure to be operated in geographical areas that are more heavily affected by weather and economic shocks with negative consequences on food security. In this case it is envisaged that the PASP could be cumulated with Child Benefit or Social Pension.

The Scenario C.3 introduces a further variant to the model, organizing the benefits through transfers targeting individuals, rather than households. This option would imply a move towards an individual rights based traditional social protections approach, like for instance the one used in South Africa or Cape Verde.

4.2.3.1 Scenario C.1

The first scenario is based on the hypothesis that both Child Benefit and Social Pension will be poverty targeted, reaching household that fall in the poorest two quintiles (40%) of the population. The PASP will have the same targeting approach as in Scenario A but the simulation assumes a maximum take-up rate of

[51] The need to consider new design alternatives stems also from the recognition that, from an operational perspective, it might be difficult for the government to implement a Public Works Scheme under the PASP at a very large scale, in order to build a comprehensive Social Protection Floor for non-labour constrained households.

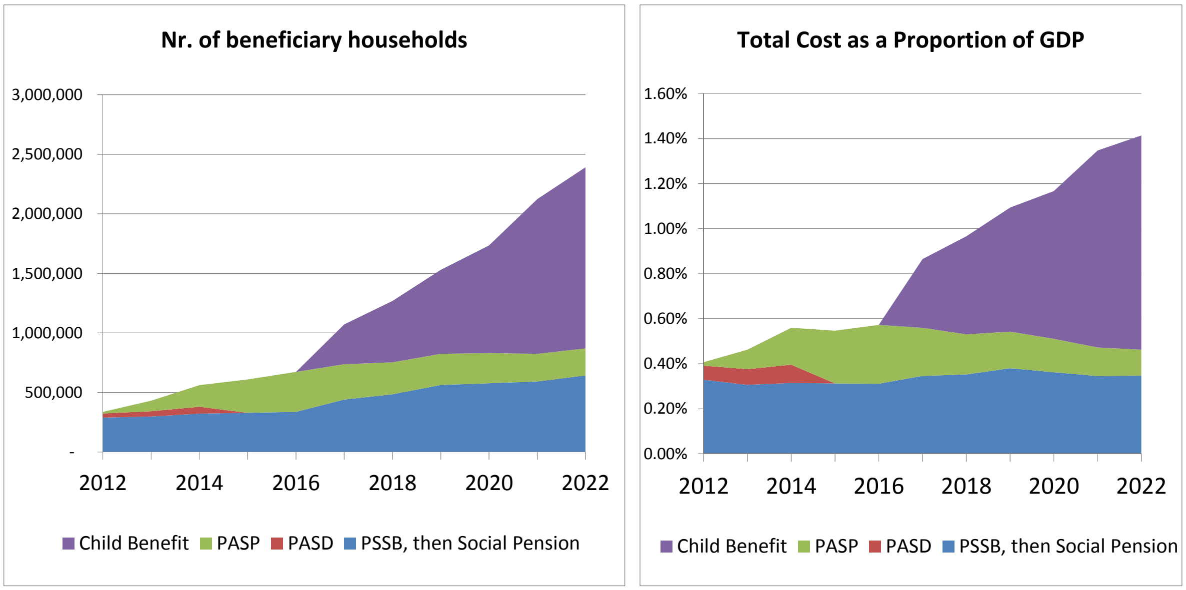
[52] Support to OVC should be included in this group rather than as a separate group, and priority should be given to households headed by children.

[53] E.g. a household with an elderly and children is counted as beneficiary of the Social Pension and will not be covered by the Child Grant). In practice the two interventions will be integrated, turning the proposal into a Family Grant, directed to poor households with Children or Elderly.

35% of the eligible in 2016. From 2017 onwards, when the Child Benefit and the Social Pension would start to be implemented, PASP take-up rate would smoothly go down to 20%.

At this stage the same logic of Operational Plan to define the transfer amounts is adopted: 1/3 of the poverty line as base transfer for Child Benefit and Social Pension (with additional 0.25% for every dependent up to 4); the value of the poverty line (without adjustment for dependents) for PASP.

Figure 4.4 Scenario C1: Number of beneficiary households and total cost as a proportion of GDP, 2012-2022



Source: Authors' calculations on IOF 2008/09.

Most of the coverage and budget increase (Figure 4.4) is represented by the introduction of the new child benefit, that in the simulation is targeted to households with children aged 0-17, with gradual take-up increase that can be obtained by progressively expanding the age limit from an initial target group of 0-6 only.

The fiscal implications of the proposed programme restructuring are remarkable, but basically aligned to the high-end of the fiscal space projections after 2012, remaining within the potential fiscal space and therefore not jeopardizing the fiscal equilibrium.

Table 4.5 Outline of Scenario C.1

		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Number of Beneficiary Households (in 1,000)	PSSB then SP	289	298	322	329	337	440	484	563	578	593	643
	PASD	35	45	58	0	0	0	0	0	0	0	0
	PASP	13	88	182	280	336	296	268	261	253	232	226
	Child Benefit	0	0	0	0	0	335	515	705	904	1,299	1,522
	Total	*337*	*431*	*562*	*610*	*673*	*1,072*	*1,268*	*1,529*	*1,735*	*2,123*	*2,391*
Total Cost (in million Mts.)	PSSB then SP	1,364	1,383	1,534	1,962	2,227	2,815	3,266	4,007	4,337	4,693	5,374
	PASD	259	313	396	0	0	0	0	0	0	0	0
	PASP	63	392	800	1,236	1,484	1,309	1,176	1,155	1,133	1,044	1,006
	Child Benefit	0	0	0	0	0	1,867	2,870	3,921	5,018	7,191	8,406
	Total	*1,686*	*2,088*	*2,731*	*3,198*	*3,711*	*5,991*	*7,312*	*9,084*	*10,488*	*12,928*	*14,787*
Cost as a % of GDP	PSSB then SP	0.33%	0.31%	0.31%	0.31%	0.31%	0.35%	0.35%	0.38%	0.36%	0.35%	0.35%
	PASP	0.06%	0.07%	0.08%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
	PNASP	0.02%	0.09%	0.16%	0.23%	0.26%	0.21%	0.18%	0.16%	0.15%	0.13%	0.11%
	Child Benefit	0.00%	0.00%	0.00%	0.00%	0.00%	0.31%	0.44%	0.55%	0.66%	0.87%	0.95%
	Total	*0.41%*	*0.46%*	*0.56%*	*0.55%*	*0.57%*	*0.86%*	*0.97%*	*1.09%*	*1.17%*	*1.35%*	*1.41%*

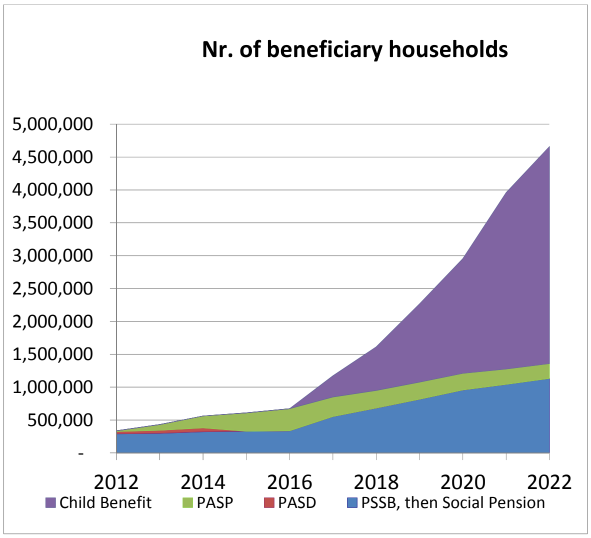
Source: Authors' calculations on IOF 2008/09.

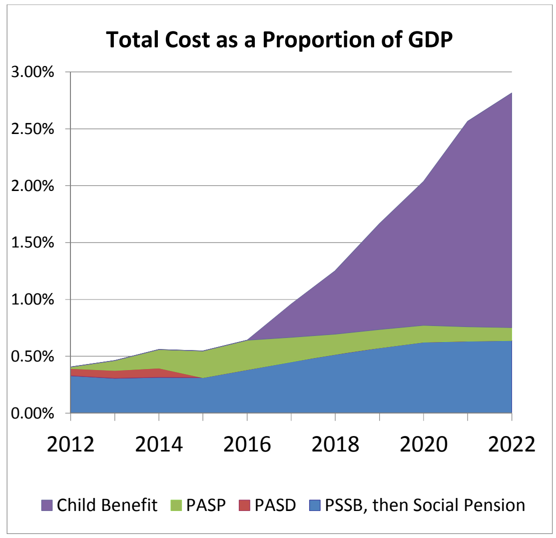
4.2.3.2 Scenario C.2

This corresponds to a scenario with an almost universal coverage of some of the benefits, responding more closely to the three income security SPF guarantees.

- coverage of household that fall in the poorest 8 deciles (80%) of the distribution for Child Benefit and Social Pension
- 1/3 poverty line poverty line as base household transfer for Child Benefit and Social Pension (with additional 0.25% for every dependent up to 4); the value of the poverty line (without adjustment for dependents) for PASP.

Figure 4.5 Scenario C2: Number of beneficiary households and total cost as a proportion of GDP, 2012-2022





Source: Authors' calculations on IOF 2008/09.

Within the scenarios discussed within this document, this is the closer scenario to provide a basic Social Protection Floor for all, indicating what would be the fiscal effort needed to get closer to such a goal. The coverage attained in 2022 would be slightly more than 4.5 million households. Considering that, with the expected evolution of the labour market the contributory coverage might also be expanded in 10 years, this set up would ensure quasi-universal coverage for the vast majority of the population.

In this case, current costs would increase to around 2.8% of the GDP. Even if this variation represent a dramatic increase compared with the current situation, relative to international benchmarks one can still classify it as affordable (e.g. 3.2% of GDP spent by South Africa on its Child Grant and Social Pension).
To carry out a full analysis of the different scenarios fiscal feasibility, particularly in the mid to long term , it is also important to bear in mind that at the time when the major increases are expected take place, the macroeconomic scenario might be different, particularly taking into account the economic perspectives and potential related fiscal implications resulting from the forthcoming mineral exploitation.

Table 4.6 Outline of Scenario C.2

		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Number of Beneficiary Households (in 1,000)	PSSB then SP	289	298	322	329	337	553	681	816	957	1,042	1,132
	PASD	35	45	58	0	0	0	0	0	0	0	0
	PASP	13	88	182	280	336	296	268	261	253	232	226
	Child Benefit	0	0	0	0	0	323	663	1,191	1,745	2,685	3,303
	Total	*337*	*431*	*562*	*610*	*673*	*1,173*	*1,613*	*2,267*	*2,954*	*3,959*	*4,661*
Total Cost (in million Mts.)	PSSB then SP	1,364	1,383	1,534	1,644	2,160	2,770	3,409	4,077	4,774	5,197	5,636
	PASD	259	313	396	0	0	0	0	0	0	0	0
	PASP	63	392	800	1,236	1,484	1,309	1,176	1,155	1,133	1,044	1,006
	Child Benefit	0	0	0	0	0	2,394	5,183	9,812	15,156	24,572	31,851
	Total	*2,023*	*2,519*	*3,293*	*3,490*	*4,317*	*7,646*	*11,380*	*17,312*	*24,018*	*34,773*	*43,154*
Cost as a % of GDP	PSSB then SP	0.33%	0.31%	0.31%	0.31%	0.38%	0.45%	0.52%	0.57%	0.62%	0.63%	0.64%
	PASD	0.06%	0.07%	0.08%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
	PASP	0.02%	0.09%	0.16%	0.23%	0.26%	0.21%	0.18%	0.16%	0.15%	0.13%	0.11%
	Child Benefit	0.00%	0.00%	0.00%	0.00%	0.00%	0.29%	0.56%	0.93%	1.27%	1.81%	2.06%

	Total	*0.41%*	*0.46%*	*0.56%*	*0.55%*	*0.64%*	*0.96%*	*1.25%*	*1.67%*	*2.04%*	*2.57%*	*2.82%*

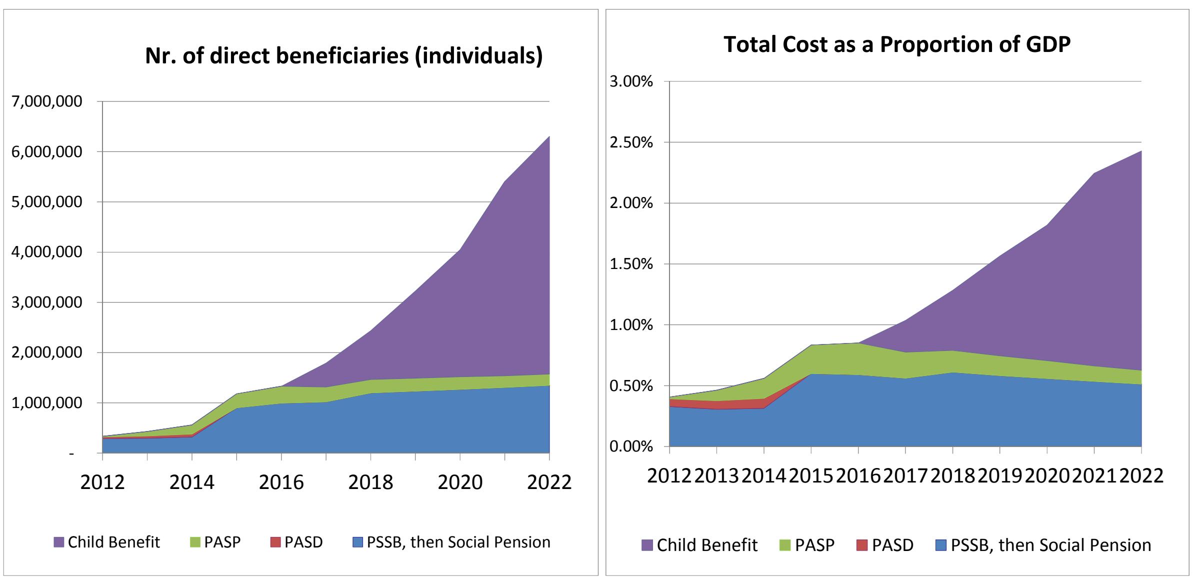
Source: Authors' calculations on IOF 2008/09.

4.2.3.3 Scenario C.3 – Individual based

This last Scenario introduces a new approach into the model by establishing an individual right to receiving benefits, rather than channelling resource to the household as a whole. Under the current system (and all simulations presented above), each transfer benefits indirectly all the members of the households, the household level transfer amount is determined according to the number of dependents in the households and one household can only access one type of transfer at a given time. Indeed, from a SPF perspective individuals are considered covered if their respective households are covered.
Under the proposed individual based approach, single household members (elderly, disabled, children, etc.) are be targeted by the system, and different types of benefits can be cumulated within the same household on the basis of its particular demographic composition (within the boundaries of a maximum number of beneficiary members per type per household). This modification would mean a significant change in the approach towards an individual rights based approach.
The Scenario is based on the assumption of higher coverage amongst individuals that will be eligible for the Social Pensions compared to children covered by the Child Benefits. This is based on experiences in theregion with almost Universal Social Pensions, like the one in South Africa.

- Social pension (transfer per eligible individual: elderly, disabled, cronically ill – capped at 5 beneficiaries per households) – 1/3 poverty line – covers households in the poorest 8 deciles (80%)
- Child benefit (capped at 5 children per household) – 1/3s poverty line – covers households in the poorest 8 deciles (80%)

Figure 4.6 Scenario C3: Number of individual beneficiaries and total cost as a proportion of GDP, 2012-2022



Source: Authors' calculations on IOF 2008/09.

Costs will not be dramatically different from the Scenario C2. However, due to more limited coverage of the Child Benefit, a smaller number of households will be reached, with higher per capita equivalent value amongst beneficiary households.

Table 4.7 Outline of Scenario C3

		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Number of Beneficiary Households (in 1,000)	PSSB, then SP	289	298	322	901	995	1,021	1,198	1,232	1,267	1,306	1,347
	PASD	35	45	58	0	0	0	0	0	0	0	0
	PASP	13	88	182	280	336	296	268	261	253	232	226
	Child Benefit	0	0	0	0	0	474	969	1,733	2,527	3,867	4,729
	Total	*339*	*433*	*564*	*1,183*	*1,333*	*1,793*	*2,437*	*3,227*	*4,049*	*5,407*	*6,305*
Total Cost (in million Mts.)	PSSB, then SP	1,364	1,383	1,534	3,158	3,349	3,436	4,033	4,145	4,266	4,396	4,535
	PASD	259	313	396	0	0	0	0	0	0	0	0
	PASP	63	392	800	1,236	1,484	1,309	1,176	1,155	1,133	1,044	1,006
	Child Benefit	0	0	0	0	0	2,120	4,580	8,650	13,319	21,527	27,800
	Total	*1,686*	*2,088*	*2,731*	*4,393*	*4,833*	*6,866*	*9,789*	*13,951*	*18,719*	*26,967*	*33,341*
Cost as a % of GDP	PSSB, then SP	0.33%	0.31%	0.31%	0.60%	0.59%	0.56%	0.61%	0.58%	0.56%	0.53%	0.51%
	PASD	0.06%	0.07%	0.08%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%	0.00%
	PASP	0.02%	0.09%	0.16%	0.23%	0.26%	0.21%	0.18%	0.16%	0.15%	0.13%	0.11%
	Child Benefit	0.00%	0.00%	0.00%	0.00%	0.00%	0.26%	0.49%	0.82%	1.11%	1.58%	1.80%
	Total	*0.41%*	*0.46%*	*0.56%*	*0.83%*	*0.85%*	*1.04%*	*1.28%*	*1.57%*	*1.82%*	*2.25%*	*2.43%*

Source: Authors' calculations on IOF 2008/09.

5. Conclusions and recommendations

Lessons learned for Mozambique

Significant strides in recognizing the importance of investing in social protection have been made in recent years by the Government and the international community in Mozambique. Despite the immense challenges that social protection faces, its role is being acknowledged as economic growth so far has not translated into poverty reduction. Because of its potential in reducing households' vulnerability, fostering improvements in human capital and productivity, and contributing to poverty reduction, the expansion of social protection coverage is increasingly seen as an important element to contribute to a more inclusive growth pattern, hence reducing the risk of social tensions and contributing to a better economic environment.

Given the structure of the labour market, it is a more viable solution for establishing a SPF in Mozambique to expand non-contributory social protection and not rely on contributory sub-systems only. Such an approach is likely to induce a substantial beneficial impact on poverty reduction and - if combined with complementary interventions - profound and sustainable changes to the productive structure of the labour force.

The main conclusion from this joint exercise is that progressively building a SPF adapted to Mozambique's needs does not present a threat to fiscal sustainability. Mozambique has been very successful in creating fiscal space for its priority spending in the past. Going forward, the government is expected to continue to reap the gains from revenue reforms and reprioritizing expenditures, and therefore creating the needed fiscal space for its various priorities. In terms of financial affordability, the Government could make room for a significant expansion of basic social security programs, possibly beyond what was proposed in the Operational Plan.

However, taking into account the current operational capacity limitations - particularly as many of the most vulnerable live in remote areas - such an expansion would only be feasible if accompanied by a significant investment in the development of more effective and efficient systems for service delivery. Independent of its fiscal affordability, the big reform challenge will thus be the establishment of systems that allow service delivery in an efficient, transparent and accountable way. The development of a new management and information system, including a single registry, new payment modalities, new processes of identification and selection of beneficiaries, and monitoring and evaluation mechanisms are essential and are currently ongoing, with support from various partners. These investments will require time to show results and further substantial capital investment, if the sector is to absorb a larger share of the government budget. Better systems for implementation will be important to increase not only the efficiency, but also the credibility and visibility of the sector.

In addition, beyond operational issues, cultural and political orientations need to be taken into account when different options are analyzed in the future. The Operational Plan has been an important step toward putting in place a comprehensive social protection strategy and articulating program actions around clear policy objective and overarching principles, which goes a long way toward establishing a SPF. However further steps are required, such as:

1. Operationalizing the policy indications included in the Operational Plan;
2. Increasing the articulation with actions by other sectors; and
3. Elaborating the vision for a full-fledged social protection system at a scale that integrates contributory and non-contributory pillars (maybe 20/30 years down the line),[54] including through the strengthening of the legal framework and the formulation of appropriate laws and regulations for the effective implementation of these policy indications, using the C102 and R202 as references.[55]

[54] Currently the ILO is assisting the Ministry of Finance and INSS in developing an Actuarial Study. The information produced within that Study will likely enhance future broader costing exercises.

[55] Recommendation No. 202, paragraph 7, provides valuable guidance in this regard by stipulating that: "Basic social security guarantees should be established by law. National laws and regulations should specify the range, qualifying conditions and levels of the benefits giving effect to these guarantees. Impartial, transparent, effective, simple, rapid, accessible and inexpensive complaint and appeal procedures should also be specified. Access to complaint and appeal

Lessons learned for the SPF initiative

The collaborative work done by the UN, IMF, WB and other development partners at a technical level has been critical in the policy dialogue that led to the adoption of the *Operational Plan*. At the same time, it has helped social protection gain a role in the public policy debate in Mozambique. As one of the most advanced pilots within the ILO-IMF collaboration under the framework of the SPF Initiative, the process illustrated the importance of, and potential benefit from, a close collaboration between development partners with different mandates and objectives. With each partner contributing its own specific technical expertise for a common goal, the outcome in terms of a coordinated policy advice to the authorities demonstrated the substantial positive effect of this approach, which is reflected in the development of the Operational Plan and the increase in budget allocations in recent years.

The strong UN-IMF collaboration took place at several levels. It included discussions during IMF PSI review missions, ongoing coordination between resident offices, joint analytical work, and repeated joint efforts, such as in conferences, to sensitize technical staff in ministries and policy makers to the relevance of social protection. Reforms were also advocated at the senior level, such as in 2011 the ILO-IMF joint presentation to the Council of Ministers and the advocacy for social protection by IMF and WB staff during the seminar on inclusive growth. The Social Protection Review prepared by the WB and its presentations during the discussion of the Operational Plan offered important “food for thought” on the options.

The existence of a partners’ forum where UN (UNICEF, WFP and ILO), WB, bilateral partners (like DFID and The Netherlands), and civil society could harmonize their positions constituted an important asset for the Government. Indeed, frequently disagreements between donors and a lack of harmonization in the way support is provided constitute sources of fragmentation. It is essential that development partners join their efforts to support the Government in building a unified system. In Mozambique, like in other countries, this has not always been the case and reduces efficiency and effectiveness.

Regardless of the partners’ collaborative approach, the most important feature behind the strides towards a National SPF in recent years has been strong Government leadership. The approach used all along was to build decisions on a solid technical basis (such as this costing and affordability exercise and the vulnerability analysis jointly done with the WB), reinforced by wide consultations that included different sensitivities and adapted solutions to local specificities and perceptions.

A final recommendation is to make the costing exercise a living instrument that is adapted to new challenges, thus making it a tool for the Government to inform its decisions. Building internal capacity within the ministries to use and understand the data produced by costing models is essential to ensure the sustainability of this effort. Indeed, this tool can also play a role in the coordination between the institutions involved in different aspects of Social Protection through more comprehensive costing exercises; for instance, by including costs of benefits that go beyond the current Operational Plan covered by INAS (e,g., those executed by the Ministries of Health or of Education).

procedures should be free of charge to the applicant. Systems should be in place that enhance compliance with national legal frameworks.”

References / Bibliography

1. Azzari, C., G. Carletto, B. Davis, A. Nucifora (Forthcoming) Children Undernutrition in Mozambique, Maputo
2. Cunha, N.; Orton, I. 2010, "Estender a Cobertura da Protecção Social num Contexto de Alta Informalidade da Economia: necessário, desejável e possível?", Cadernos IESE, Nº5, Maputo
3. Hodges, A; L. Pellerano. 2010 "Development of Social Protection: Strategic Review for UNICEF Mozambique". Oxford Policy Management, London.
4. International Labour Organization (ILO), 2011b, Report VI. Social security for social justice and a fair globalization. Recurrent discussion on social protection (social security) under the ILO Declaration on Social Justice for a Fair Globalization, Sixth item on the agenda (Geneva), pp. 134.
5. International Labour Organization (ILO), 2011a, Report VI. Social security for social justice and a fair globalization. Recurrent discussion on social protection (social security) under the ILO Declaration on Social Justice for a Fair Globalization, Sixth item on the agenda (Geneva), pp. 134.
6. ILO, 2012: *Social Security for All: Building social protection floors and comprehensive social security systems. The strategy of the International Labour Organization* (Geneva: International Labour Office), <http://www.socialsecurityextension.org/gimi/gess/RessFileDownload.do?ressourceId=34188>
7. Instituto Nacional de Acção Social (INAS), Relatório de Actividades 2009, 2010, 2011, Maputo
8. Instituto Nacional de Estatística (INE), 2004, Inquérito à Força de Trabalho, Maputo
9. Instituto Nacional de Estatística (INE), 2008, "Mozambique - Multiple Indicator Cluster Survey-2008 (MICS), Maputo
10. International Monetary Fund (IMF), 2011, "Staff Report for the 2011 Article IV Consultation, Second Review Under the Policy Support Instrument, and Request for Modification of Assessment Criteria", Washington
11. International Monetary Fund (IMF), 2012, "Staff Report for Fourth Review Under the Policy Support Instrument, and Request for Modification of Assessment Criteria", Country Report No. 12/148, Washington
12. International Monetary Fund (IMF), 2013, "Staff Report for Fifth Review Under the Policy Support Instrument, and Request for Modification of Assessment Criteria", Country Report No. 13/1, Washington
13. Mausse, M.; Cunha, N. 2011, "Setting up a Social Protection Floor – Mozambique" in Sharing innovative experiences: Sucessfull social floor experiences, Ch, 14, pp. 313-332. ILO-UNDP. 2011, Vol. 28, New York.
14. Ministério da Mulher e da Acção Social (MMAS), 2010, "Estratégia Nacional de Segurança Social Básica (2010-2014), Maputo
15. Ministério da Mulher e da Acção Social (MMAS), 2011, "Criação de programas de Segurança Social Básica no quadro da implementação da Estratégia Nacional de Segurança Social Básica", Maputo
16. Ministério da Planificação e Desenvolvimento (MPD), 2010, "Poverty and Wellbeing in Mozambique. Third National Poverty Assessment", Maputo.
17. Ministério da Planificação e Desenvolvimento (MPD), 2011, Plano de Acção para a Redução da Pobreza (PARP) 2011-2014, Maputo
18. Picado-Chacon, Gustavo, Fabio Duran Valverde and Rodrigo Briceno. 2010. "Diagnóstico do Instituto Naiconal de Seguranca Social de Mozambique" . OIT Projecto STEP/Portugal, Maputo.
19. UNICEF, 2010. "Child Poverty and disparities in Mozambique", Maputo
20. UNICEF, FDC, ILO, MDB, 2011, "Informe Orçamental, Acção Social", Maputo
21. World Bank (WB), 2012 "Mozambique Social Protection Assessment: Review of Social Assistance Programs and Social Protection Expenditures, October.

22. World Food Program (WFP), 2010 "Expansion of Food Voucher Program (Cesta Básica) to assist People Living with HIV/AIDS under Antiretroviral Therapy (ART) and Tuberculosis (TB) Treatment" . Project Proposal to Rapid Results Fund (RRF), Maputo

23. World Food Program (WFP), 2010, Mozambique Comprehensive Food Security and Vulnerability Analysis, Maputo

Annex A The costing methodology

The costing exercise was undertaken by Oxford Policy Management (OPM) and ILO with technical advice from the IMF. The simulation model is based on a quantitative model – a Rapid Assessment Protocol (RAP) – developed by UNICEF/ILO to provide relevant and robust advice to countries on the development of elements of a national social protection floor (ILO, 2008).
In the case of Mozambique the model was further developed by ILO and OPM as part of an attempt to provide INAS with a country specific social protection costing tool that is fully adapted to national circumstances and available (micro) data. The model takes into account country specific information on demographic developments as well as macro-economic developments. Historical data for the various demographic and macro-economic variables, i.e. population projections, real and nominal gross domestic product (GDP), inflation, exchange rate, government expenditure and government revenue, etc. are used. Demographic data, historical and population projections were taken from the following national sources:

1. official demographic projections from the National Institute for Statistics. Disaggregated by sex, age range and urban/rural. Further disaggregation by age in years was produces as the results of interpolation on the basis of the projections from the UN population prospects 2008 (medium variant)

2. household micro-data from the latest available Household Budget Survey (IOF 2008/09) that provides a representative sample of all households in Mozambique

3. historical data on inflation and national macroeconomic projections and social protection fiscal space projections from most recent IMF country documents

With respect to the RAP approach the costing model additional flexibility and precision is provided by the following features:

- Eligibility to different benefit schemes is simulated directly on the micro-data from the HBS, allowing full flexibility in determining the eligible categories on the basis of individual characteristics (age, gender, disability and illness status, participation in the labour market, etc.) and household characteristics (total number of able bodies).

- The complete demographic and socioeconomic profile of eligible households can be determined from the micro-data, including the household composition, average number of children, elderly and dependents. It is also possible to predict the cost implications of complex policy design features like the cap on the number of eligible dependents, as the simulation draws on the full detail of household composition from the HBS sample

- The implications of interacting categorical targeting and poverty targeting can be fully simulated from the micro data. In particular it was possible to: a) simulate poverty targeting (selecting household only below a given percentile) on the basis of a wealth index constructed with assets and demographic composition variables included the HBS; b) predict the implication of imposing poverty targeting on the demographic composition of eligible households (e.g. cost implications of larger household sizes amongst the poorest households).

The model is structured in two components: a STATA based micro-simulation framework and an excel based framework to assess macroeconomic implications. The micro-simulation framework permits to calculate the number of eligible households, direct beneficiaries and secondary beneficiaries of alternative policy options. Policy parameters are defined in an input mask that enables full flexibility on the type of categorical restrictions (individual level and household level specifications of the eligible set), characteristics of primary and secondary beneficiaries, geographical focus, poverty targeting and also allows to model the overlap or incompatibility of different benefits.
The output of the micro-simulation is an estimate of the proportion of eligible primary (secondary) beneficiaries within the demographic reference set (individuals in the same geographical zone - urban/rural -, with the same age and gender profile). For example, in the case of the eligibility to the PSSB for elderly, the household eligibility is determined on the basis of containing one male older than 59 or one females older than 54, not containing any other able body (categorical targeting) and belonging to the first 4 wealth quintiles of the population (poverty targeting). The output of the micro-simulation is the proportion of males older than 59 or females older than 54 (i.e. in the demographic reference set) that are eligible. This

proportion is assumed to be constant over time and is applied to the population projections for the specific age, gender and geographical zone of the reference set to obtain the number of primary beneficiaries in the simulation timeframe (2012-2022). The same for secondary beneficiaries depending on their characteristics. The underlying assumption of the projections is that the distribution of individuals (by age, gender and geographical zone subset) across household types is constant over time.
Once the projections of the volume of eligible households, primary and secondary beneficiaries are produced, take-up is determined on the basis of ad-hoc assumptions that depend on the nature of the benefit and the current state of coverage, never exceeding a natural rate of 90%. Further groups are excluded on a case by case manner (e.g. recipients of contributory pensions for the PSSB). Costs are simply calculated by multiplying the projected number of primary and secondary beneficiaries (capped if necessary) for the unitary transfer value for each category and the number of monthly payments per year. Administrative costs are added as a fixed rate of transfer costs that vary per benefit type (as reported in the main body of the document). The simulation assumes that transfer values are adjusted every year for (projected) inflation in the previous year in order not to erode the real value of the benefit.

The total transfer cost is compared to macroeconomic aggregates based on the IMF projections reported in the table below:

Table A.1 Macroeconomic Framework (IMF projections)

	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Consumer prices	2.45%	6.95%	5.60%	5.60%	5.60%	5.60%	5.60%	5.60%	5.60%	5.60%	5.60%
GDP at Current Prices (in million Mts)	414,375	482,871	550,705	628,068	715,132	813,953	926,578	1,054,787	1,197,394	1,359,282	1,543,057

The model was built with the view to be flexible to the extent that it also permits sensitivity analysis of the macroeconomic background (i.e. GDP growth) and all main policy design assumptions (i.e. eligibility rules, take-up, benefit levels, frequency, administrative costs, etc.).
In principle the microdata platform should also allow to simulate the effect of alternative benefits on poverty headcount and poverty gap. This element of the model has been developed but is not fully functional due to the poor quality of consumption expenditure data in the latest HBS.