

Photo: © UNICEF/MOZA2013-00319/Alexandre Marques

BUDGET BRIEF 2018 SOCIAL ACTION

Key Messages¹:

- The 2018 State Budget Law (LOE) combined Social Action and Labor & Employment into a single priority sector, for the fourth consecutive year. Nevertheless, other relevant budget and expenditure documents, such as State Budget Execution Reports (REOs) and General State Accounts (CGEs) classify Social Action and Labor & Employment as two different priority sectors. Considering that the two sectors have different objectives and target populations, it would be important that the LOE as well classified Social Action and Labor & Employment separately.
- Of the MT 6.7 billion (b) allocated in 2018 for “Acção Social e Trabalho”, 4.6 billion MT correspond with basic (non-contributory) Social Protection programmes. Given that no Price Subsidies (fuel, bread, transportation) are referred into LOE 2018, “Subsídios as Empresas Públicas” on the amount of 735.5 million MT remain wrongly included as within “Social Action and Labour”.
- Those Public Enterprises, as referred in LOE are “as empresas públicas que pelas suas atribuições procedem aos objectivos sociais sem carácter lucrativo, estando contempladas a Rádio Moçambique, Televisão de Moçambique, Hidráulica do Chókwe, Imprensa Nacional de Moçambique (INM), Regadio do Baixo Limpopo, Maputo Sul e Empresa Nacional de Parques de Ciências e Tecnologia”. Allocations to cover exploration deficits of those public enterprises should not be considered in any way as social action expenditure, is needed and strongly recommended to be referred separately.
- The Social Action Sector - intended in its narrow definition as the sector managed by MGCAS and INAS - was allocated MT 6.1 billion (b) in the 2018 Budget, representing the largest ever nominal allocation and the second largest real allocation to the sector. The allocation to the sector is worth 2 percent of the entire 2018 State Budget; Less financial operations and debt servicing, it represents 2.6 percent. As a share of GDP, the 2018 allocation to Social Action represents 0.6 percent, which is still far from the 2.4 percent target laid out in the National Basic Social Security Strategy (ENSSB) for 2016-2024.
- The Social Action Sector has received an increasing share of internal resources over the past decade. The 2018 internal allocation is the largest ever nominal contribution from the Government to the sector. In proportional terms, the internal to external resources ratio is budgeted at 71 percent to 29 percent. Nevertheless, it is important to highlight that the largest external investment is the World Bank credit to the Productive Social Action Program (PASP); while this is tracked as external resources, the Mozambican Government will have to pay back the loan and the corresponding interest. Hence, the PASP program is *de facto* internally-funded.
- Over 90 percent of the Social Action Sector budget was allocated to INAS, of which the largest share was directed to the non-central level. INAS programs received the following allocations in 2018 budget: (i) Basic Social Subsidy Program (PSSB) was allocated MT 3.1 b (or 68 percent of all INAS programs), (ii) Productive Social Action Program (PASP) MT 1.1 b (or 23 percent), (iii) Direct Social Action Program (PASD) MT 283 m (or 18 percent), and (iv) Social Action Social Services (SSAS) MT 94 m (or 3 percent). With this budget at disposition, INAS programs targeted a total of 567,290 beneficiary households.
- While INAS recently introduced criteria to target beneficiaries in a more equitable manner considering geographical disparities among provinces, targeting needs to be further improved. In fact, on the one hand nominal allocations per province show better targeting of most disadvantaged areas; however, on the other hand, per capita allocations- taking into consideration the distribution of poverty – reveal that there is still room to enhance geographical equity of Social Protection Programs.

¹ **Please note:** All analysis was carried out with publicly available information. Where limitations were encountered, notes are made in the text. There are some minor discrepancies between the totals presented in past Budget Briefs and those presented in the 2018 edition. As data sources were updated, UNICEF revised its calculations. The viewpoints expressed in this brief are those of the author and do not necessarily represent those of UNICEF Mozambique.

1. How is the Social Action Sector defined?

The Social Action Sector refers to the institutions in charge of Mozambique's social protection systems that receive autonomous budget allocations through the State Budget. Although the 2018 State Budget Law (LOE) combined Social Action and Labor & Employment into a single priority sector, other relevant budget and expenditure documents, such as State Budget Execution Reports (REOs) and General State Accounts (CGEs), report Social Action spending separately from Labor & Employment spending, considering them as two different priority sectors². It would be important that also the LOE classified Social Action and Labor & Employment as two distinct priority sectors, as they have different goals and target different populations. In addition, although the 2018 LOE does not include price subsidies (i.e. fuel subsidies, wheat flour subsidy, and transporter subsidy), Public Enterprise Subsidies have been again incorrectly included under the Social Action & Labor Sector. These subsidies are allocations to cover exploration deficits of public enterprises and should not be considered in any way as social action expenditure.

For these reasons, and with the purpose of further improving transparency of the sector's spending, this Budget Brief will focus exclusively on Social Action and exclude both Labor & Employment, and Subsidies. The Social Action Sector is managed at the central level by the Ministry of Gender, Children and Social Action (MGCAS) as well as the National Social Action

Institute (INAS). At the sub-national level, the sector is managed by MGCAS Provincial Directorates and INAS Provincial and District Delegations. While in the past other institutions belonged to the sector's organigram, DNPO's latest "Methodology for the calculation of Priority Expenditure" has clarified that the Ministry of Veterans' Affairs (MAAC) ceased to be included in the sector and the budget for the District Services for Health, Women's Affairs, and Social Action (SDSMAS) is accounted for within the Health Sector. In total, the Social Action Sector is composed of 32 autonomous budget holding institutions (*see Figure 1*).

The Social Action Sector is guided by the National Basic Social Security Strategy (ENSSB) for 2016-2024. The Social Action Strategy, which was approved by the Council of Ministries on 23 February 2016, defines the guiding principles and targets for basic Social Protection in Mozambique. According to the ENSSB, the State Budget should allocate 2.24 percent of GDP to Social Protection interventions by 2024. Additionally, two multisector strategic plans define Social Action Sector targets: (i) the PQG 2015-2019 states that 25 percent of vulnerable households should be covered by basic social security programs by 2019 and (ii) the National Development Strategy (ENDE) 2015-2035 states that 75 percent of vulnerable households should be covered by basic social security by 2035.

SOCIAL ACTION, MOZAMBIQUE

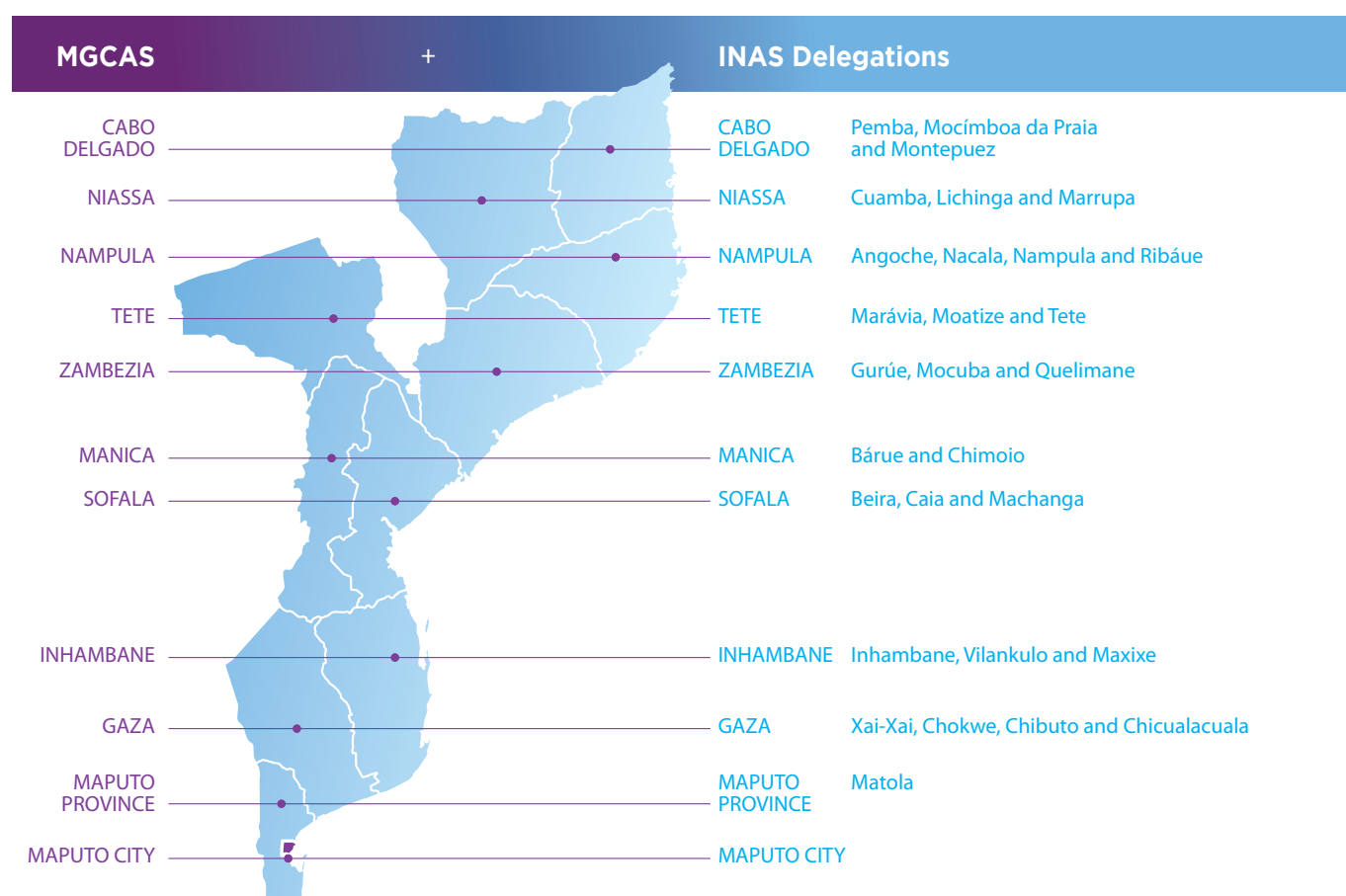


Figure 1: Organigram of the Social Action Sector

2. What trends emerge from the Social Action budget?

The Social Action Sector was allocated MT 6.1 billion (US\$ 101 million) in the 2018 State Budget. In nominal terms, the 2018 allocation to the sector represents a 29 percent increase compared to last year's budget, a 39 percent increase compared to revised allocation, and a 75 percent increase relative to expenditure (*see Glossary of budget terminology*). In real terms, it represents a 20 percent increase compared to last year's budget allocation, a 30 percent increase compared to the revised allocation, and a 63 percent increase relative to expenditure (*see Figure 2A & B*). From a historical perspective, the 2018 social action allocation is the largest of all time in nominal terms, but the second largest (after 2016) in real terms. Budget and expenditure in the Social Action Sector have been overall well-aligned over the years; however, disparities between budget and expenditure have progressively increased since 2014 and have reached over 25 percent difference last year. Hence the initial budget allocation is no longer indicative of how much will be actually spent in the sector.

Although the Social Action Sector receives the smallest share of resources relative to the other social sectors, it has demonstrated the largest nominal and real increases in expenditure over time. In nominal terms, the initial allocation grew from MT 0.11 b in 2008 to MT 6.1 b in 2018, and expenditure increased from MT 0.6 b in 2008 to MT 3.5 b in 2017. Remarkably, spending in the sector increased over 500 percent in nominal terms

MT 6.1
billion is the amount
allocated to the Social
Action sector in the
2018 State Budget

and approximately 250 percent in real terms between 2008 and 2017. The increase in expenditure over time was largely captured by INAS: in fact, whereas INAS was responsible for just 23 percent of Social Action spending in 2008, in 2018 Budget it is responsible for 91 percent of total sector spending. The large increase in spending helped INAS more than double coverage of its Programs: Basic Social Subsidy Program (PSSB), Direct Social Action Program (PASD), Productive Social Action Program (PASP), and Social Action Social Services (SSAS) (*see Section 4.3 for more details on Social Action Programs*).

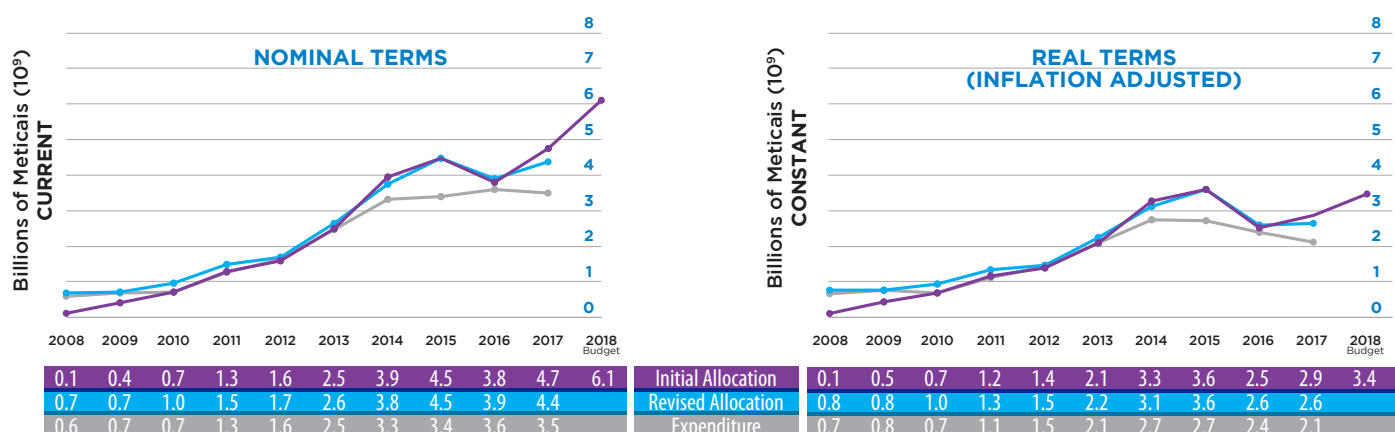


Figure 2 A & B: Social Action Sector budgeting and expenditure

Source: Author's calculations from the CGE 2008–2017, LOE 2018. World Bank, World Development Indicators: Consumer Price Index (2010 = 100).

Note: While years 2008–2017 display expenditure figures, 2018 is the initial budget allocation.



Photo: © UNICEF Mozambique/2012/Ian Berry/Magnum Photos

The 2018 Social Action sector's budget occupies a 2 percent share of the entire State Budget; this represents an increase from the 1.3 percent share last year (see Figure 3). It must be noted that the methodology that the Government of Mozambique applies to calculate sector shares – which takes out financial operations, debt servicing and subsidies from the common denominator of the entire State Budget – the Social Action Sector share increased from 1.9 percent in 2017 to 2.6 in 2018 Budget³. Regardless of what methodology is used to calculate sectors' shares, Social Action is the only of the four social sectors that saw its share of total expenditure increase between 2008 and 2018. In fact, the weight of the sector more than doubled over the past decade⁴. This trend demonstrates the Government's commitment

to increasing funding to Social Action, despite the sector is still receiving the smallest share of public spending relative to other social sectors.

The Social Action Sector is worth 0.6 percent of expected Gross Domestic Product in 2018 Budget (see Figure 3). This is on par with 2017 sector's share of GDP in the budget (i.e. 0.6 percent), but it represents an increase relative to the share of GDP considering 2017 expenditure (i.e. 0.4 percent). Still, the sector is far from meeting its ENSSB goal of allocating 2.24 percent of GDP to social action. Larger budgetary allocations to the sector are needed to reach this ENSSB goal and is still far from international benchmarks in developing countries.

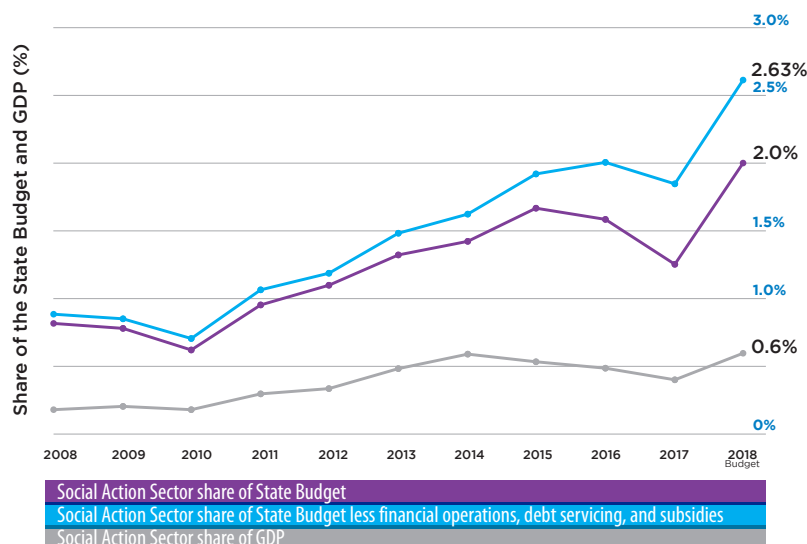


Figure 3: Trends in the weight of the Social Action Sector relative to total government spending and GDP

Source: Author's calculations from the CGE 2008-2017; LOE 2018.

Note: The 2018 shares are initial budget allocations while the 2008-2017 shares are expenditure.

3. The Government of Mozambique, instead of using the total volume of the State Budget as a denominator, calculates the percentage share utilizing the total State Budget minus debt servicing, financial operations, and subsidies. This report calculates shares out of the total State Budget as is standard practice for international benchmarking.
4. This share is computed considering the narrow definition of Social Action (MGCAS/INAS activities only) and including financial operations and debt servicing in the denominator.

3. What is the source of Social Action Sector resources?

The Social Action Sector in Mozambique is financed with internal (i.e. domestic) and external (i.e. foreign) resources. Internal resources are derived from taxes, tariffs, duties, and internal credits. Up until 2015, internal resources were supplemented by General Budget Support (GBS) from a group of donors. External resources allocated to the Social Action Sector are “Bilateral Project Funds”, which are grants or credits. Bilateral project funds are –in theory–

coordinated between the donor and MGCAS and applied through a variety of modalities including: (i) direct government support with government-only or joint partner-government implementation, often “On-Budget, On-CUT”; (ii) partner or third-party implementation, often “On-Budget, Off-CUT”; or (iii) partner or third-party implementation, but “Off-Budget”.

3.1 Internally- versus Externally-sourced Resources

The Government of Mozambique has steadily increased its funding to the Social Action sector, and it has reached its largest nominal contribution to the sector in 2018 budget (see Figure 4A). In nominal terms, internal resources allocated to Social Action in 2018 Budget are worth MT 4.3 b. This represents over a 40 percent nominal increase relative to 2017 internal resources dedicated to the sector. From a historical perspective, considering that ten years ago the government dedicated just MT 370 m to the Social Action sector, 2018 internal sector allocation is about 1000 percent larger. In real terms, the internal contribution to the sector increased by 34 percent relative to 2017, and by over 400 percent than in 2008.

In proportional terms, internal resources allocated to Social Action in 2018 make up 71 percent of the sector budget, while external resources make up 29 percent. This represents a decline of the internal resources share relative to last year (see Figure 4B). Between 2008 and 2017, the sector’s internal to external resources ratio

averaged 79 percent internal to 21 percent external. In 2008, 62 percent of resources came from the Government while 38 were from donors. Later, the internal to external resources ratio continued to increase, and reached its peak in 2014 (i.e. 94 percent internal to 6 percent external). Since then, the portion of internal resources has progressively decreased until this year’s allocation. Nevertheless, it is important to highlight that the only external investment is the World Bank credit to the PASP program; while this is tracked as external resources, the Mozambican Government will have to pay back the loan and the corresponding interest. Hence, the PASP program is de facto internally-funded. Finally, on external support, it is worth mentioning that the Social Action sector benefits from technical and financial support from international partners (i.e. ILO, UNICEF, WFP, etc.) in developing and strengthening the Basic Social Protection system in Mozambique, but this support is not recorded in the LOE as the funds are not transferred to INAS/MGCAS.

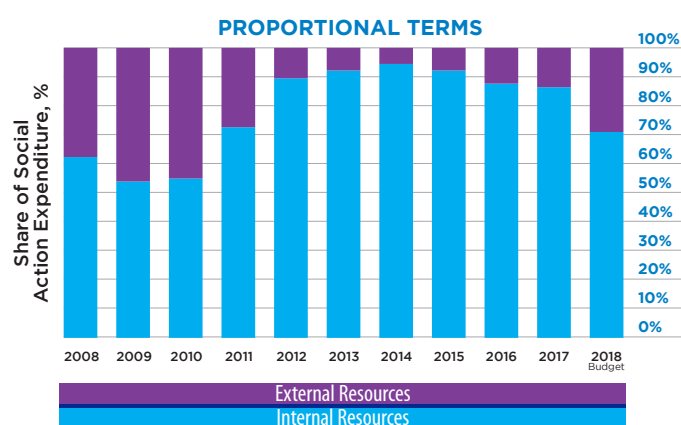
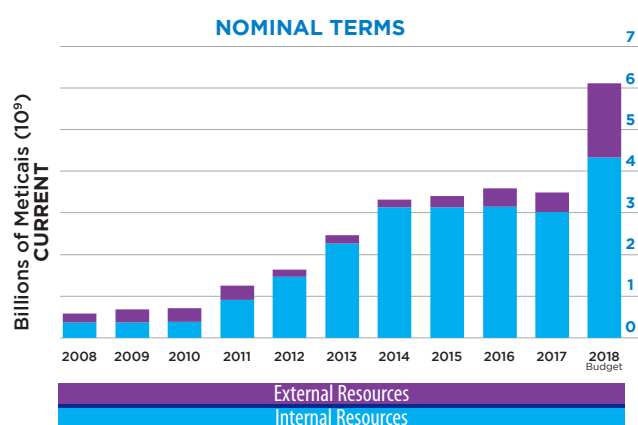


Figure 4 A & B: Provision of internal versus external resources

Source: Author's calculations from the CGE 2008-2017; LOE 2018.

Note: The 2018 shares are initial budget allocations while the 2008-2017 shares are expenditure.

4. How are Social Action resources spent?

The Ministry of Economy and Finance releases initial funds (*dotação inicial*) via the CUT to each autonomous budget-holding social action institution (i.e., INAS delegations) and subsequently updates the allocation based on budget execution rates and available resources (*dotação atualizada*). The institutions track spending (*execução*) through the e-SISTAFE (Government integrated

financial management information system), which sources quarterly budget execution reports (REOs) and the annual General State Account (CGE). The way the 2018 social action budget will be spent can be analyzed from the following four perspectives:

4.1 Recurrent versus investment spending

In 2018, recurrent spending for the Social Action Sector is budgeted at MT 6.03 b, the largest ever allocation to recurrent, and investment is budgeted at MT 0.08 b in nominal terms (see Figure 5A). Historically, spending in the Social Action Sector has been predominantly recurrent (see

Figure 5B). In 2008, recurrent expenditure was worth 81 percent of total sector expenditure, while investment was worth 19 percent. Recurrent expenditure progressively increased relative to investment and reached its peak with a 99 percent share both in 2016 and in 2018 Budget.

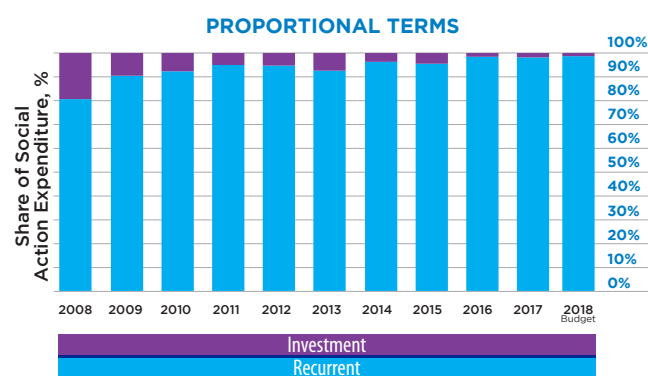
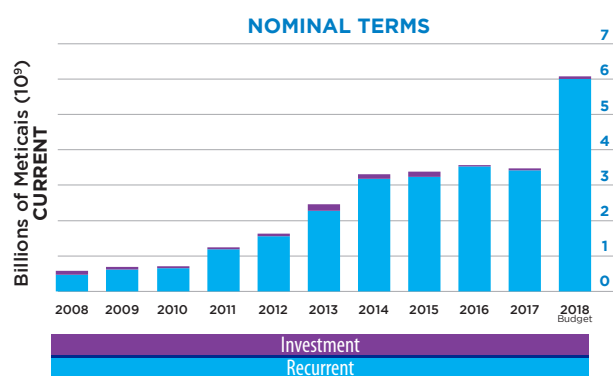


Figure 5 A & B: Recurrent versus Investment Resources
Source: Author's calculations from the CGE 2008-2017; LOE 2018.
Note: The 2018 shares are initial budget allocations while the 2008-2017 shares are expenditure.

4.2 Resource use by Social Action Institution

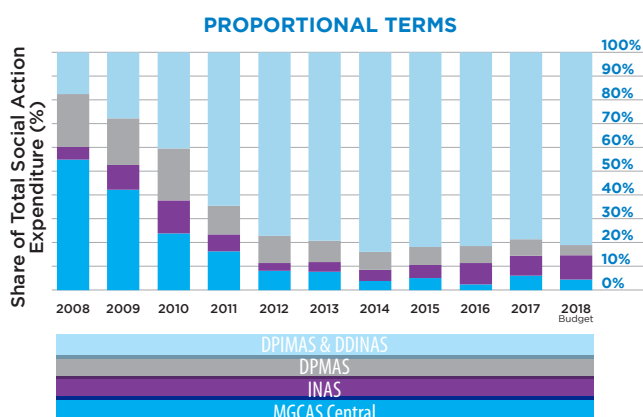


Figure 6: Resource shares by Institution
Source: Author's calculations from the CGE 2008-2017; LOE 2018.
Note: The 2018 shares are initial budget allocations while the 2008-2017 shares are expenditure.

INAS was allocated over 90 percent of the Social Action budget in 2018, of which the largest share was directed to its district delegations (see Figure 6). In 2018, INAS and its delegations were allocated a total of MT 5.5 b, equal to 91 percent of the Social Action Sector's budget. On the other hand, MGCAS was allocated a total of about MT 0.5 b or 9 percent of the sector's budget. Of this, about 5 percent was dedicated to MGCAS at the central level, and 4 percent to its Provincial-level Directorates.

4.3 Resource use by administrative level

Spending for the Social Action Sector is highly decentralized, particularly to the district level (see Figure 7). While the ratio of central to non-central level resources was 60 to 40 percent in 2008, it became 15 to 85 percent both in 2017 and in 2018.

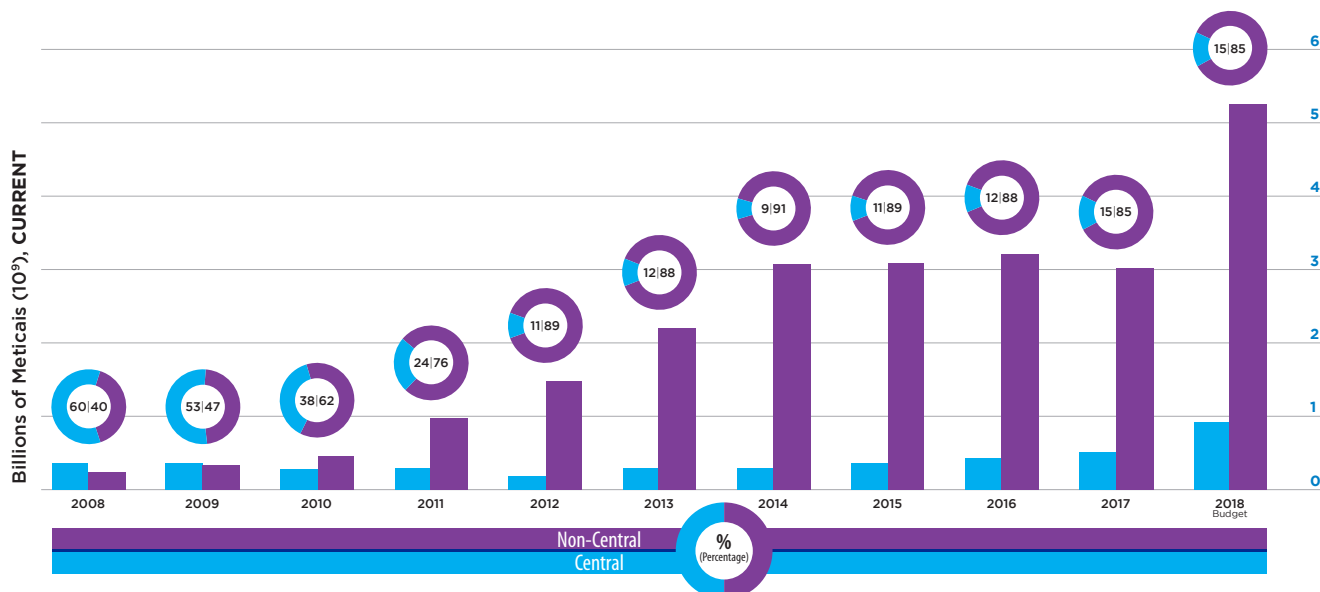


Figure 7: Resource shares by administrative level

Source: Author's calculations from the CGE 2008–2017; LOE 2018.

Note: The 2018 shares are initial budget allocations while the 2008–2017 shares are expenditure.

4.4 Resource use by Social Protection Programs (INAS Programs)

INAS Programs were allocated a total MT 4.7 b in 2018 budget (see Figure 8 A & B). This corresponds to 77 percent of the Social Action Sector's budget, 1.5 percent of total State Budget, and 0.4 percent of GDP. In recent years, INAS Programs have received an increasingly larger share of sector's resources that culminated in this year's budget. Among the four programs, the PSSB⁵ has consistently been allocated most of the resources over

the past four years (an average 56 percent between 2015 and 2018), followed by PASP⁶ (23 percent), PASD⁷ (18 percent) and SSAS⁸ (%). Similarly, in 2017 budget PSSB was allocated MT 3.1 b (or 68 percent of all INAS programs), PASP MT 1.1 b (or 23 percent), PASD MT 283 m (or 18 percent), and SSAS MT 94 m (or 3 percent).

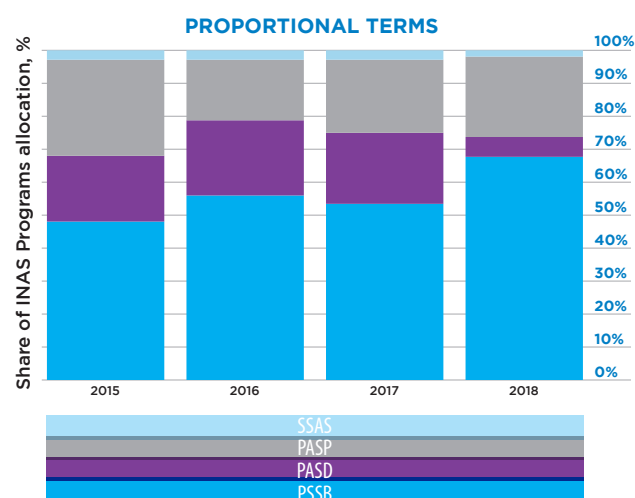
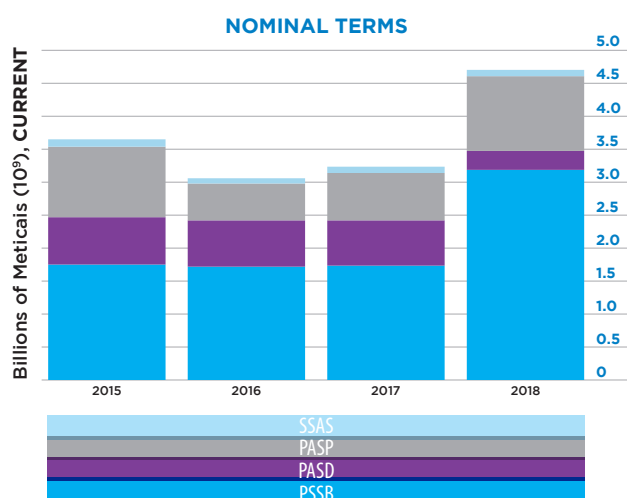


Figure 8 A & B: Allocations to INAS Social Protection Programs

Source: Author's calculations from LOE 2015–2018.

5. Programa Subsídio Social Básico (PSSB) targets vulnerable households with no labour capacity, mainly people in old age and people with disability.
6. Programa Acção Social Productiva (PASP) – Public Works Programme, targets poor households with at least one member with labour capacity.
7. Programa Acção Social Directa (PASD) targets household affected by shocks.
8. Social Services.

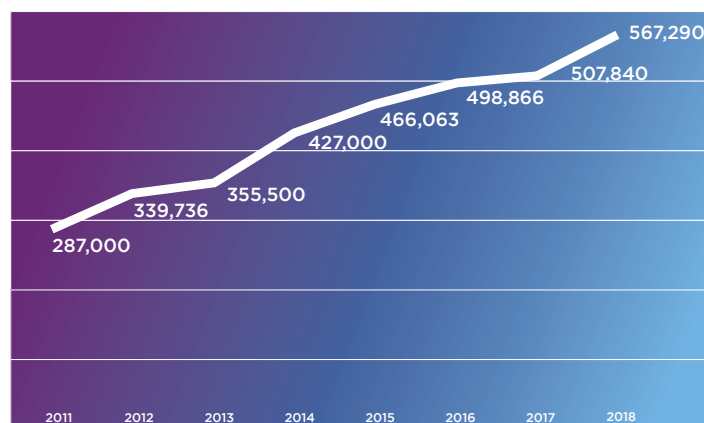


Figure 9: Beneficiary Households of INAS Social Protection Programs
Source: Author's calculations from the CGE 2008-2017, LOE 2018, and Balanço do PES 2017.

In 2018, INAS Programs targeted 567,290 beneficiary households (see Figure 9). This represents an 11.6 percent increase relative to the 507,840 households targeted by Social Protection programs (PSSB, PASP, PASD and SSAS)⁹. The values of the transfers to beneficiary households of INAS programs remained the same since 2015, not being adjusted with inflation. Nevertheless, through the Decree n. 59/2018 for the Revision of the Value of Social Assistance

Programs Subsidies, approved on 6 August 2018, the Government has updated the subsidies values. Under the PSSB, the new values for subsidies are as follow: (a) MT 540 for one-person households; (b) MT 640 for two-person households; (c) MT 740 for three-person households; (d) MT 840 for four-person households; MT1,000 for five-person households. Under the PASP, the value of subsidy was updated to MT 1,050.

5. How well has the Social Action Sector executed its past budgets?

The Social Action Sector executed 80 percent of the sector budget in 2017 (see Figure 10). Over the past ten years, the Social Action Sector has executed on average 86 percent of its budget. This is on par with the average

execution rate of the entire State Budget, and it is the second highest average among social sectors¹⁰.

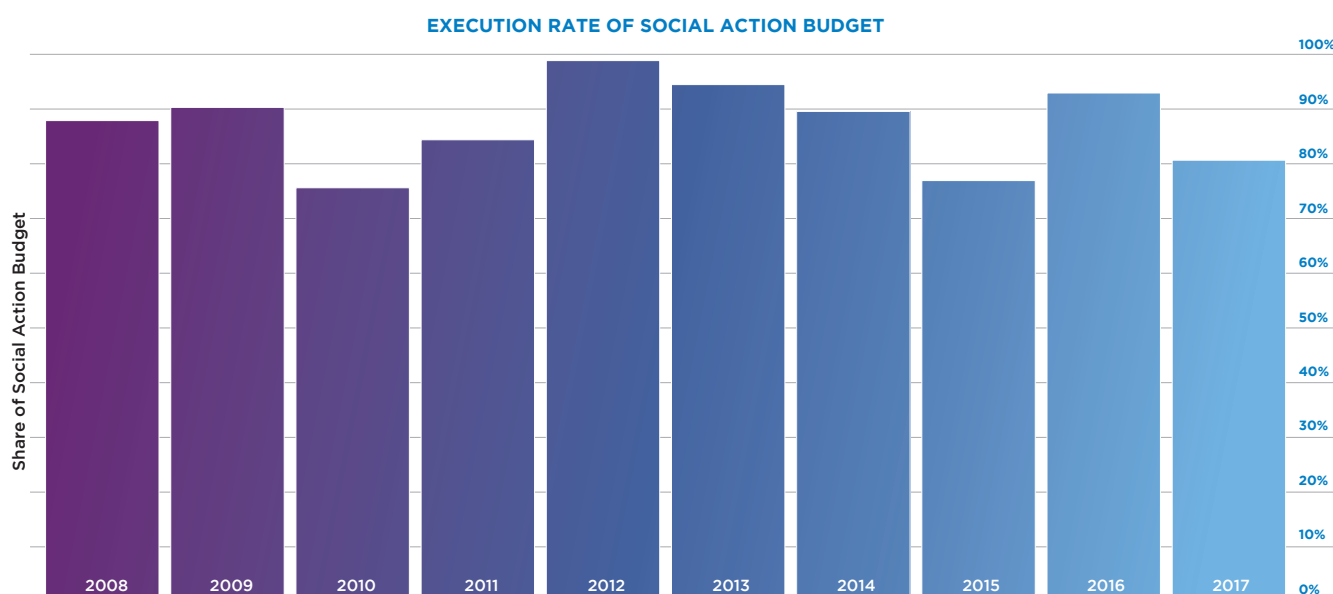


Figure 10: Social Action Budget Execution
Source: Author's calculations from the CGE 2008-2017.

9. MEF, 2018 *Documento da Fundamentação*, page 28.

10. The Education Sector has shown the highest execution rate of 92 percent over the past decade.

6. How has the Social Action Sector performed relatively to strategic objectives?

The Mozambican Government has set two ambitious goals for the Social Protection Sector under its 2015-2019 Five Year Program (PQG) and its 2015-2035 National Development Strategy (ENDE). As mentioned earlier in the report, in its medium-term strategy, the PQG, the Government has set the target to cover 25 percent of households in a situation of vulnerability, starting from a 15 percent estimated baseline in 2015. The long-term target set in the ENDE is a 75 percent coverage rate of poor and vulnerable households under Social Protection programs.

According to the mid-term review of the 2015-2019 Five Year Program (PQG), Mozambique provides 17 percent of vulnerable households with social assistance. This is nearly 8 percent away from its 2019 strategic target (see Figure 11). As of the last available data, Mozambique has still to cover an additional 8 percent of beneficiary households in order to

meet its strategic objective of a 25 percent household coverage. Within this measure of support, the government currently provides 309,806 vulnerable children with social assistance¹¹. This is still around 40,000 children short of the government meeting its 2019 target.

In order to reach the ambitious goals defined in the medium- and long-term Government strategic documents, the allocations to the Social Protection Programs should keep growing at a constant pace over the next few years. In addition, the challenges of (i) modernizing the systems to manage beneficiaries, (ii) outsourcing payment mechanisms, (iii) re-registering current beneficiaries, etc. – which are ongoing processes- require heavier investments in the coming years, as well as a substantial strengthening of the sector's human resources.

SOCIAL ACTION PERFORMANCE

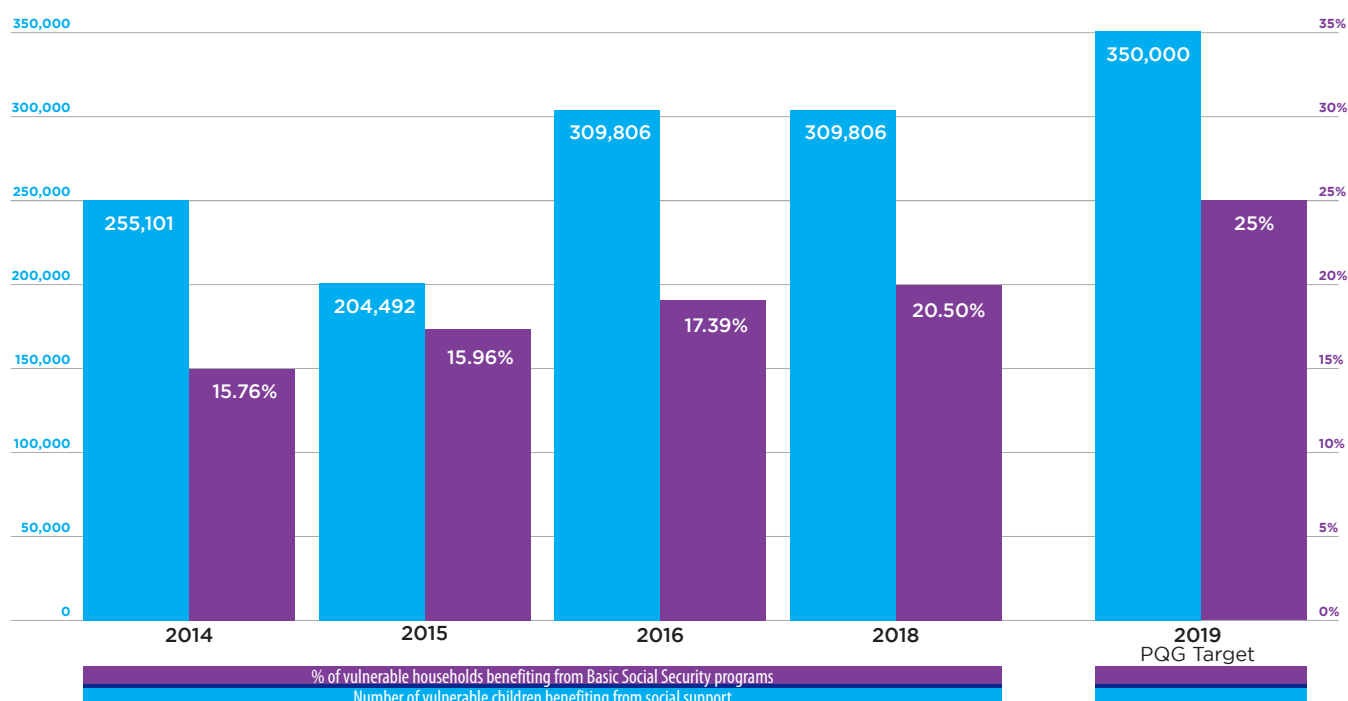
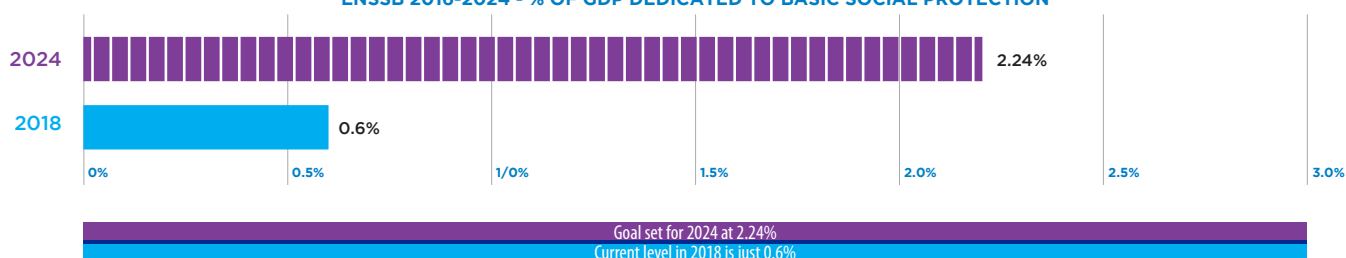


Figure 11: Social Action Performance Relative to PQG Targets

Source: Balanço Intermédio do Programa Quinquenal do Governo 2015-2019, Page 73.

ENSSB 2016-2024 - % OF GDP DEDICATED TO BASIC SOCIAL PROTECTION



11. Author's compilation from Balanço Intermédio do Programa Quinquenal do Governo 2015-2019, Page 73.

7. How equitable is the Social Action budget?

INAS recently introduced objective criteria to target beneficiaries in different delegations by relying on demographic and poverty indicator. These criteria aim at reducing inequity in the geographical distribution of resources allocated to the four Social Protection Programs (PSSB, PASP, PASD and SSAS). However, while nominal allocations per province show an improved targeting of most disadvantaged areas (e.g. Zambézia), 'per-poor' allocations reveal that the targeting of Social Protection Programs is still inequitable.

Nampula and Zambézia provinces receive the largest nominal allocations from INAS programs relative to other provinces (see Figure 12). In 2018 Budget, Nampula and Zambézia were allocated MT 940 m and

MT 810 m respectively, followed by Tete, Manica and Gaza that received approximately MT 400 m each. Among the other provinces, Maputo Province received the lowest allocation to INAS programs. As mentioned above, the most funded program across the country is PSSP, followed by PASP, PASD and SSAS in order of average allocation. However, in Zambézia the PASP program receives about half of the total resources dedicated to INAS programs. Similarly, the Nampula province is allocated a higher than average share of the PASP.

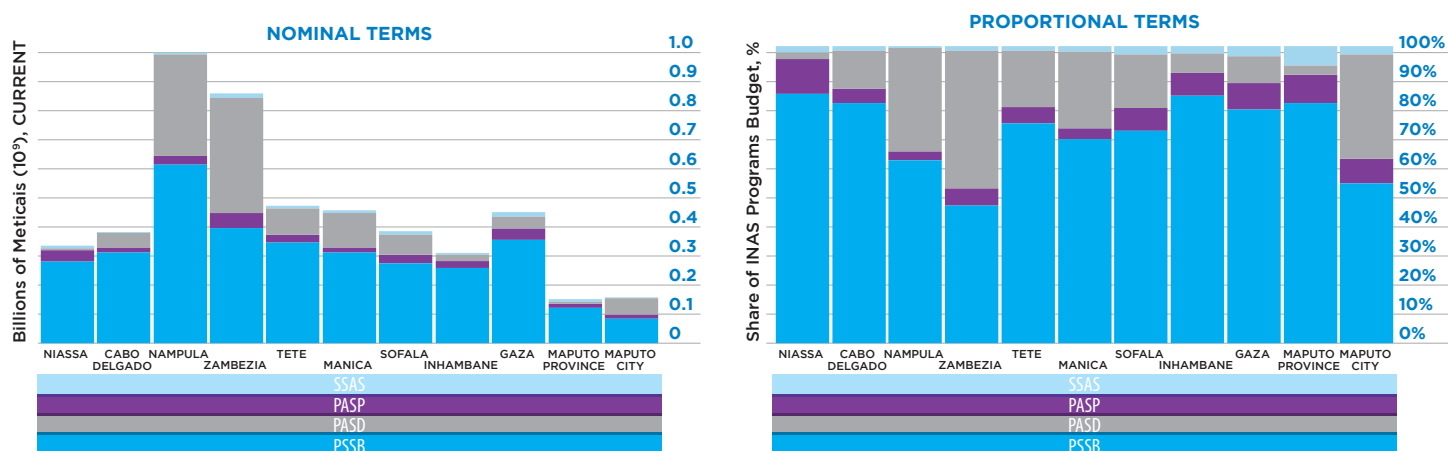


Figure 12A & B: 2018 Allocations to INAS Programs by Province
Source: Author's compilation from the 2018 LOE.



Photo: © UNICEF Mozambique/2012/Ian Berry/Magnum Photos

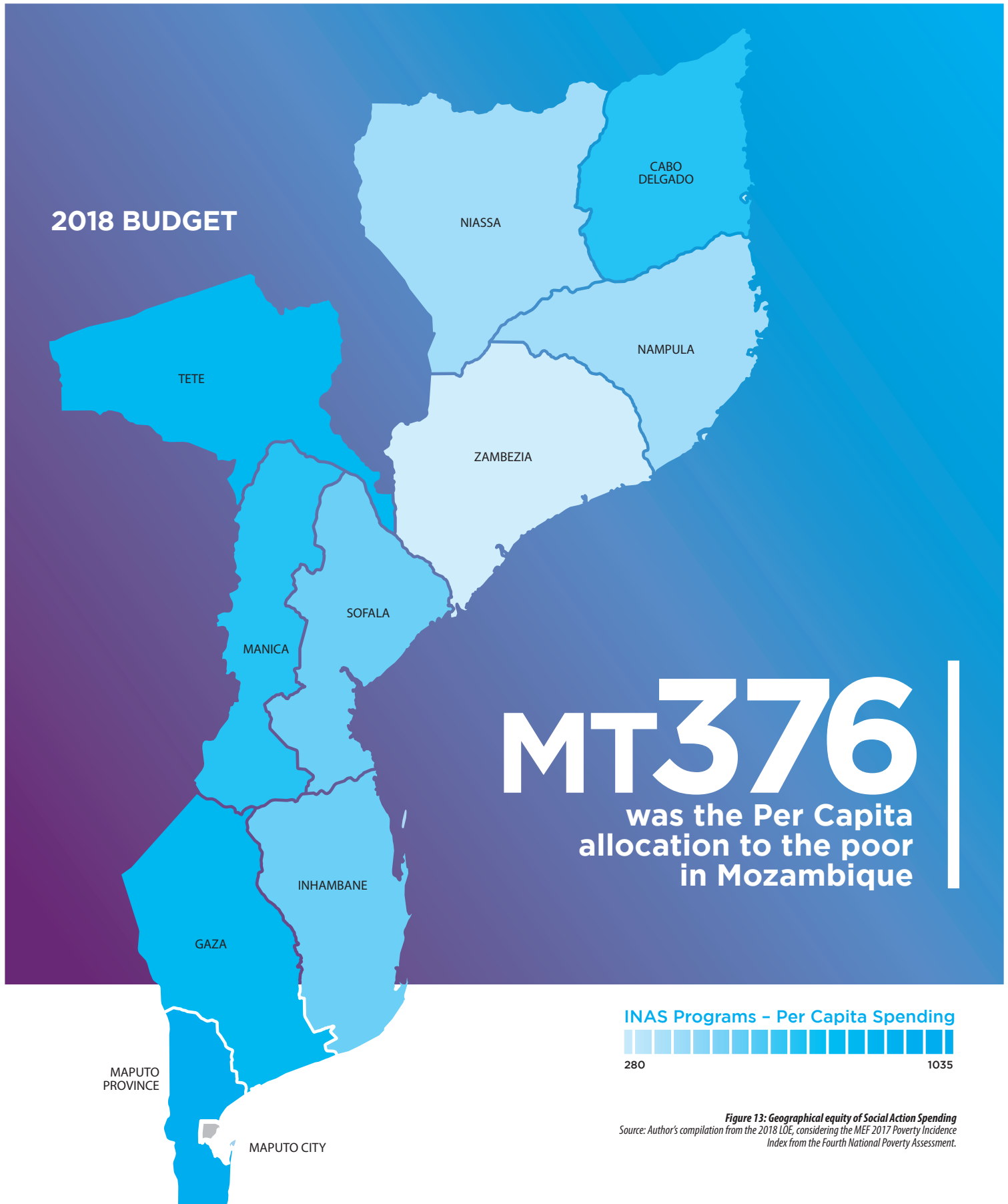


Figure 13: Geographical equity of Social Action Spending
Source: Author's compilation from the 2018 LOE, considering the MEF 2017 Poverty Incidence Index from the Fourth National Poverty Assessment.

Nevertheless, 2018 per-capita Social Action Sector spending on the poor is lowest in Zambézia, Niassa, Nampula and Sofala (see Figure 13). While considering nominal allocations of INAS Social Action Programs by Province, Zambézia province receives the second highest gross allocation, but on a per person basis (i.e. per capita allocation among the poor population), receives the lowest allocation. In fact, Zambézia's per person

allocation – taking into account the estimated poor population- in 2018 is MT 280 while it is approximately MT 1000 in Maputo City. This example reveals that the relationship between the geographical distribution of poverty and the distribution of the sector's resources through INAS Social Action programs is still very weak.

GLOSSARY OF BUDGET TERMS

- **Initial Allocation (*Dotação Inicial*):** The first allocation of funds, approved by Parliament
- **Revised Initial Allocation (*Dotação Rectificativa*):** A revised allocation of funds, approved by Parliament
- **Updated Allocation (*Dotação Actualizada*):** The total funds that arrive at the disposal of a given social action institution
- **Expenditure (*Despesa Realizada*):** Allocated funds spent on social action investment and recurrent costs
- **Budget Execution (*Execução do Orçamento*):** Percentage of allocated funds spent out of the total allocation
- **Nominal Values; Current:** Numbers not corrected for the effect of inflation
- **Real Values; Constant:** Numbers corrected for inflation

LIST OF ACRONYMS

- **b:** Billion
- **CGE:** General State Account (Final Budget Report)
- **CFMP:** Medium-term Fiscal Plan
- **CUT:** Single Treasury Account
- **ENDE:** National Development Strategy
- **ENSSB:** National Basic Social Security Strategy
- **e-SISTAFE:** Financial Management Information System
- **GDP:** Gross Domestic Product
- **ILO:** International Labor Organization
- **INAS:** National Social Action Institute
- **LOE:** State Budget Law
- **MAAC:** Ministry of Veterans' Affairs
- **MEF:** Ministry of Economy and Finance
- **MGCAS:** Ministry of Gender, Children and Social Action
- **m:** Million
- **MT:** Mozambican Metical (Local Currency)
- **PASD:** Direct Social Action Program
- **PASP:** Productive Social Action Program
- **PES:** Economic and Social Plan
- **PQG:** Government Five Year Plan
- **PSSB:** Basic Social Allowance Program
- **REO:** State Budget Execution Report (Budget Update Report)
- **SDSMAS:** District Service for Health, Women, and Social Action
- **SSAS:** Social Action Social Services
- **UGB:** Autonomous Budget Holder Code
- **UNICEF:** United Nations Children's Fund
- **US\$:** United States Dollar (Currency)
- **WB:** World Bank