



United Nations
Mozambique
Delivering as One

TOWARDS A MOZAMBICAN SOCIAL PROTECTION FLOOR

Consolidating a comprehensive Social Protection System in Mozambique – Analysis of Policy Alternatives and Costs

Victor Lledó, IMF

Nuno Cunha, ILO

Luca Pellerano, OPM and IFS (in absentia)

Johannes Mueller, IMF (in absentia)

Yung Xiao, IMF (in absentia)

Patrick Giton, IMF (in absentia)

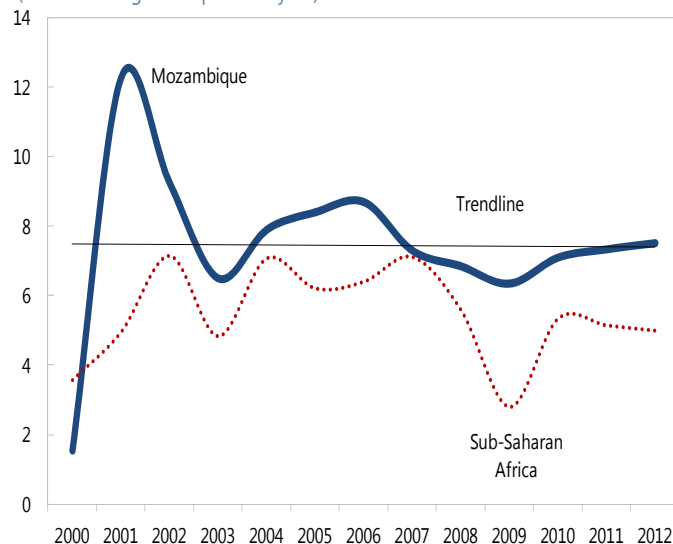
Workshop on Policy Options for Effective and Sustainable Social Protection Floors

Mozambique: A Strong Track Record of Macro Stability

- Mozambique is a mature stabilizer as a result of sound macroeconomic management and structural reforms
- Compared to its peers, its macroeconomic indicators are strong and continue to improve.
- Mozambique has had successive non-financial program with the IMF (PSI). The current program will run until 2016.

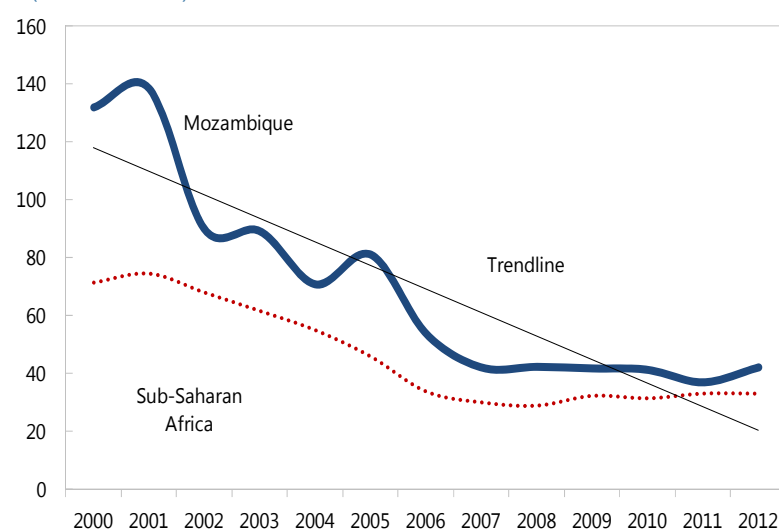
Real GDP

(Percent change from previous year)



Public Debt

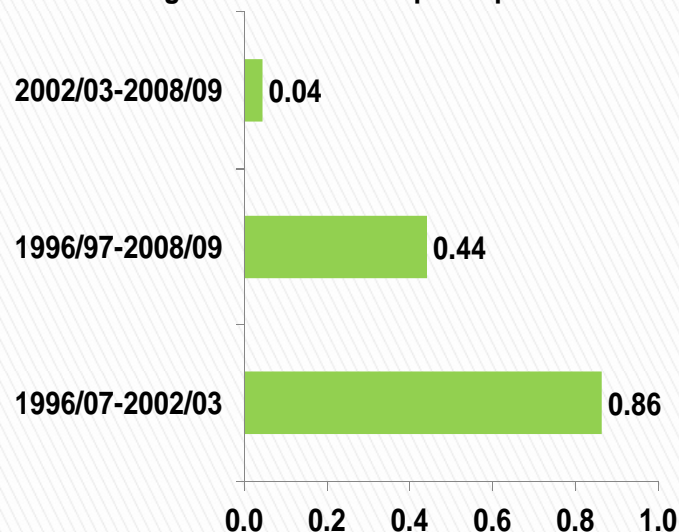
(Percent of GDP)



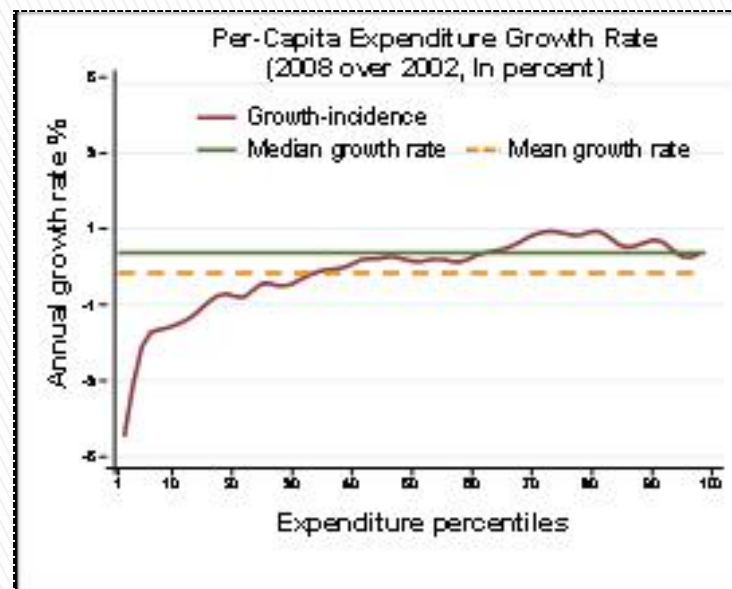
Mozambique: Poverty Reduction Record not Proportional to Economic Growth

- The poverty rate has been stagnant between 2002/03 and 2008/09, at about 55 percent.
- Economic growth has been less pro-poor than in other successful countries.
- Economic growth has been less pro-poor in the recent period.
- Poorer segments of the population have not benefited from economic growth.
- Urban Riots occurred in 2008 and 2010.

Elasticity of Mozambique's national poverty line headcount poverty rate with respect to growth in real GDP per capita



The growth incidence curve shows that growth has been non-pro-poor over the last decade



Mozambique: The Acknowledgement of the Social Problem

Authorities' Action Plan For Reducing Poverty (PARP) 2011–14

- 1st pillar: Enhancing production and productivity in agriculture
- 2nd pillar: Promoting employment
- 3rd pillar: Furthering human and social development, including by enhancing efficiency and coverage of basic social security

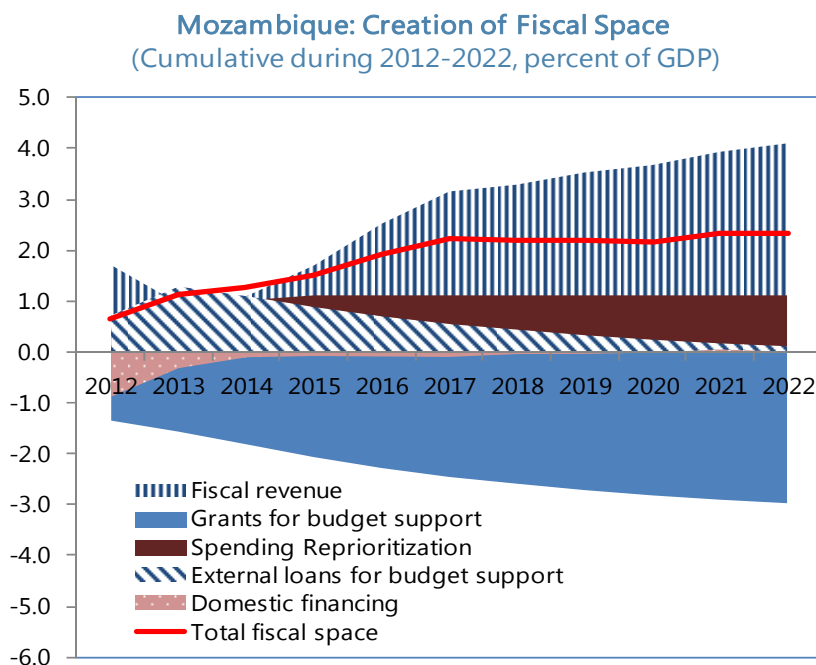
Authorities' National Strategy for Basic Social Security (ENSBB)

- Coordinator: Ministry of Women and Social Action (MMAS)
- Targeted population: Children, elderly, disabled, women and poor households
- Components: Cash transfers, social services, labor intensive public works
- Targeted coverage: 371,000 in 2013; possibly 815,000 in 2016
- Budget allocation: 0.35 percent of GDP for 2013

Pilot International Cooperation

- World Bank–SP Assessment; Support to Public Works Programme and administrative system development with 50 M USD loan starting from July 2013 with implementation from July 2014
- IMF–Fiscal space assessment, advocacy and public financial management
- ILO–UNICEF–WFP Policy development, administrative and financial information management, and field implementation and on-the-job training to local and central authorities

Mozambique: The Creation of Fiscal Space



	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)

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

- **Over 2011-2022, an additional fiscal space of about 2.3 percent could be created for all government's priority spending programs** About half of (1.2 percent) by expanding the overall spending envelope. The other half (1.1 percent) by reprioritizing its spending programs, mainly through the phasing out of the costly and ill-targeted fuel subsidy.
- **There are countervailing developments at work:**
- Building on the **strong rise in revenue collections** since 2005, the authorities expect a further increase in the revenue effort going forward.
- By contrast, **external grants** are expected to decline from the peak of the global crisis.
- **External financing** could temporarily fill the void, but with limits in order to preserve debt sustainability.
- There is small room for **more domestic borrowing** so as to avoid a crowding out of the private sector.
- **Further fiscal space could be created if:**
 - The **taxation of the booming natural resource sector** can be improved.
 - **More donor resources** can be tapped

Mozambique: The Scope for Priority Spending

	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

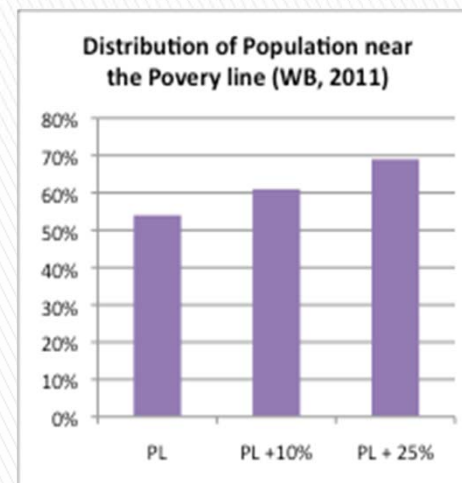
- The projected creation of fiscal space to enhance the expenditure envelope and the envisaged reprioritization of spending will allow accommodating two main spending priorities going forward:
 - Investment to close the infrastructure gap.
 - Expansion of social protection.
- In the baseline projection, social protection under the ENSSB could rise to 0.7 percent by 2016 and reach 1½ percent of GDP over the medium term.
- 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.

Mozambique: A strong case for Social Protection

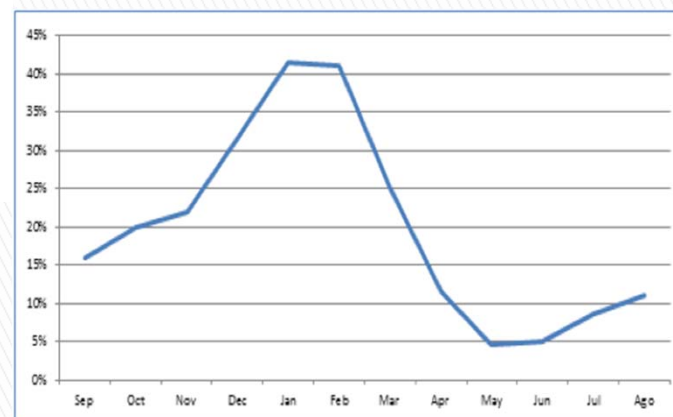
Majority of the population is highly vulnerable

- Big share of the population **near the poverty line**
 - 55% are below the poverty line +10% (transient)
- High dependence on subsistence farming, exposure to weather shocks , high dependence on ODA
- Food insecurity patterns highly correlated with climatic cycles
 - Between the months of December and March FI levels rise to around 40%
- About 20% of the population is food insecure
- 44% of the children below 5 are chronically malnourished

Intergenerational poverty trap threatening the country's future



Leading to high vulnerability to small income variations



Mozambique: Social Protection current system

- Has one of the oldest non-contributory cash-transfers in Africa – PSA (converted into the PSSB)
 - National Coverage
 - Until 2008 fully funded by internal resources
- Broad and comprehensive legal and policy framework
 - Social Protection Law (2007) – establishes a funding mix aligned with the SPF
 - Regulation of BSS (2009) and National Strategy for BSS (2010)
 - Approval of new Programs by the Council of Ministers (September 2011)
 - Includes a more systematic approach replacing the ad-hoc programs

The Programmes:

- ▶ PSSB – HH with no members able to work (Elderly, PWD, CI)
- ▶ PASD – HH with temporary incapacity to work
- ▶ PNASP – HH with capacity to work (associated with PW)



The IMF–UN costing exercise

Founded on the ILO RAP model and building on an assessment of fiscal space by the IMF country team, the sector assessment and vulnerability analysis (WB, 2011) the costing exercise was based on:

- demographic official projections
- household micro-data
- latest IMF macroeconomic projections

Exercise Objectives

- Costing the approved programs (the exercise assisted the government in taking informed decisions).
- Measuring the fiscal impact of a potential expansion (the targets do not represent yet the country full coverage needs)
 - Scale up on the number of beneficiaries
 - Increasing the transfer amount
- Paving the way for future improvements on the quality of the system
 - Informing on the costs of other policy options after 2014
 - Splitting the cash transfers into two different components: pension and child allowance

2012

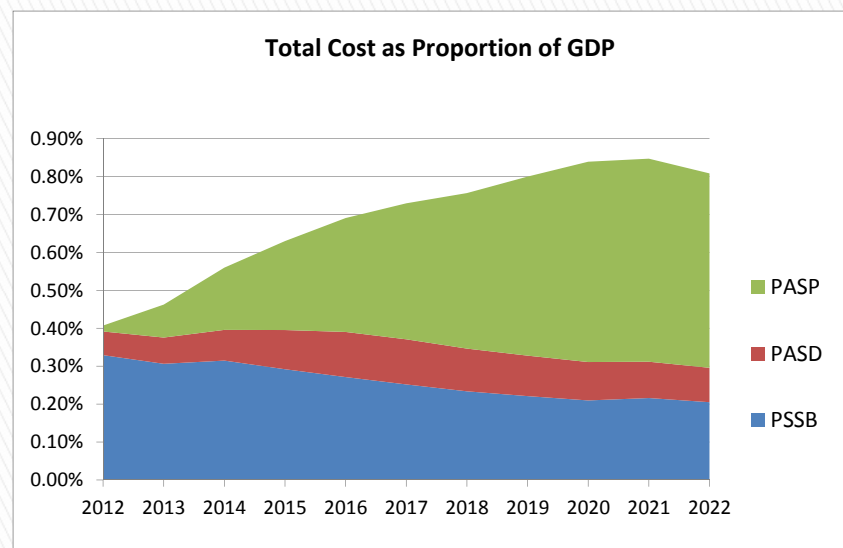
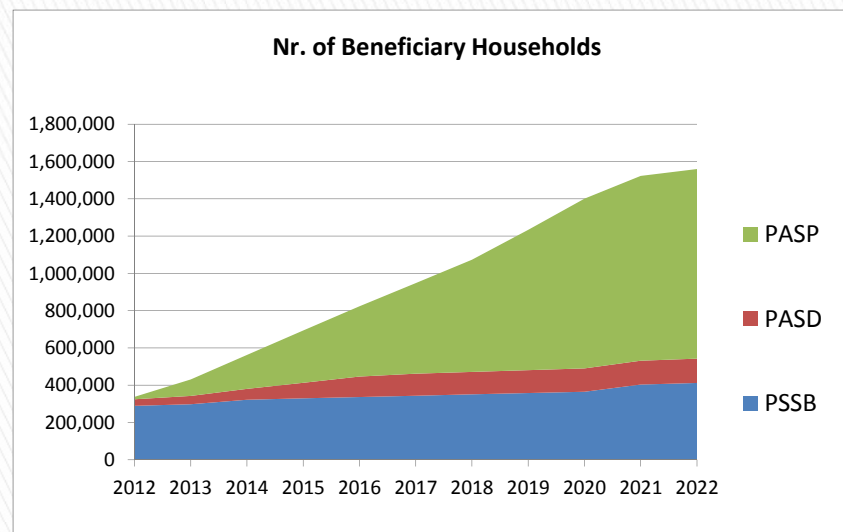
2015

2022

Mozambique: Program Costs and Fiscal Space

Scenario A

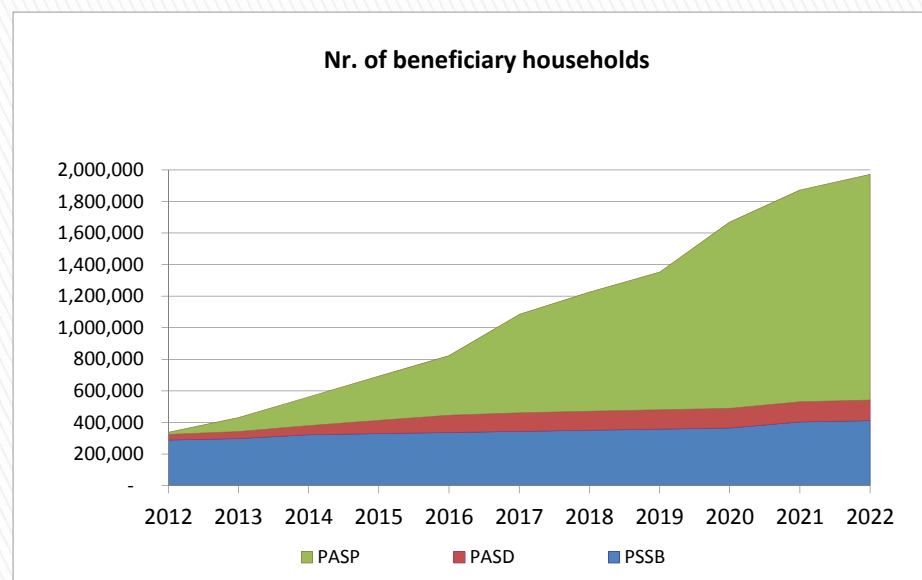
- ▶ Compares Government's current targets up to 2014 with the estimated fiscal space for Social Protection (IMF projections)
 - PSSB covering 80% of the eligible HH in 2014 with a transfer equivalent to 1/3 of the PL
 - PW covering 6% of Urban and Rural HH in 2014 (40% in 2022 for U.HH and 25% for R.HH). Transfer equivalent to the PL.
- ▶ Shows financial capacity to reach the targets without jeopardizing the fiscal equilibrium
- ▶ Estimates a potential positive balance to increase coverage further than current targets



Mozambique: Program Costs and Fiscal Space

Scenario B

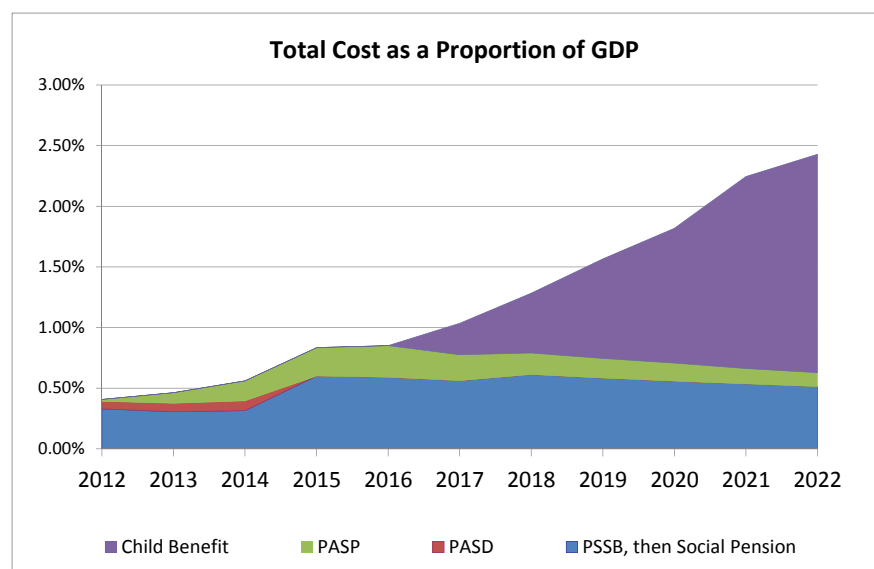
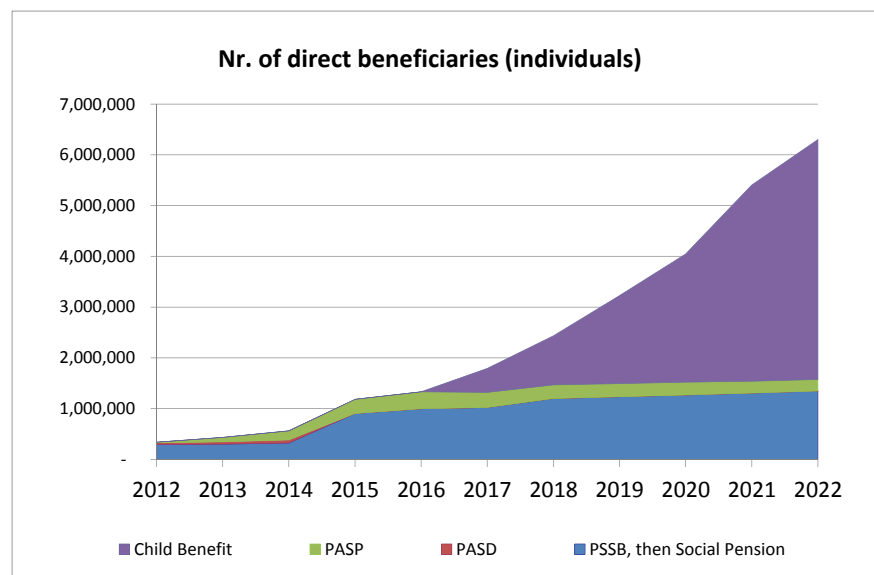
- ▶ Follows the current priorities in terms of extension
- ▶ Estimates the potential coverage if government allocates to SP the 1,50 % estimated as potential fiscal space for the area
- ▶ Would be possible to extend coverage in 2013 and 2014 without jeopardizing the fiscal equilibrium (max. would be in 2012 with 1,59%)
- ▶ Main increase in Productive Social Action
 - 40% of HH in Rural Areas in 2022
 - 25% of HH in Urban Areas in 2022



Mozambique: Program Costs and Fiscal Space

► Scenario C

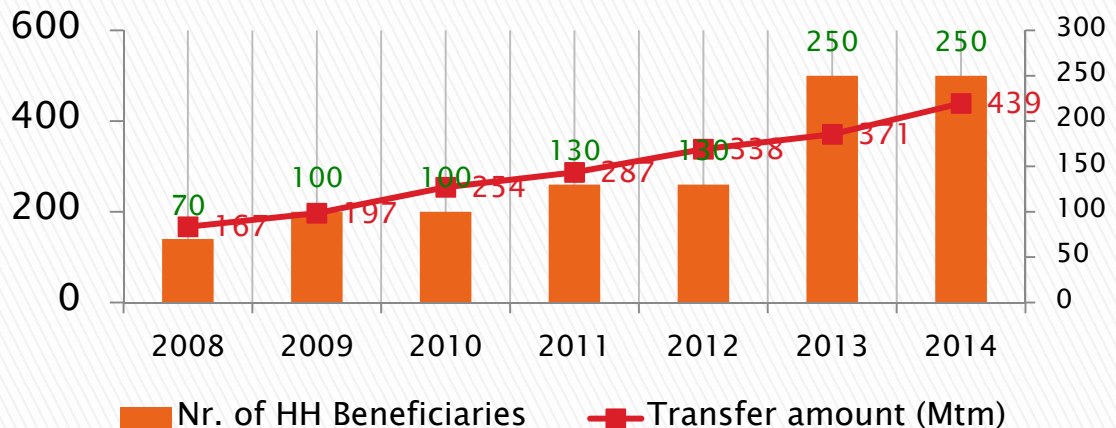
- Estimates the cost of increasing coverage and splitting current cash-transfer program in a Child-Benefit (80% of HH with Ch.) and a Social Pension (80% of Elderly)
- Reducing the expansion pace of PW Program
- Transfer 1 / 3 P/L for CB and SP and PL for PW



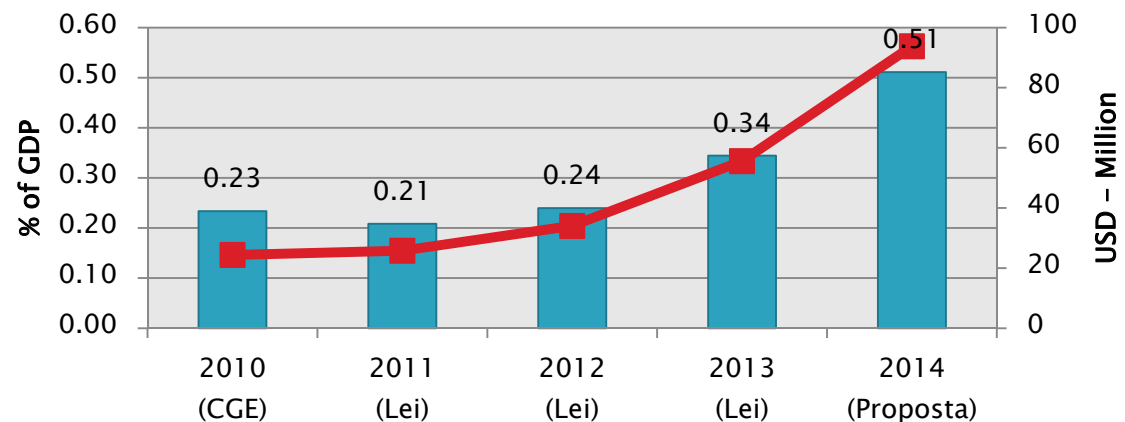
Mozambique : Outcome of Strong government leadership & close UN/IMF collaboration

- ▶ Social Protection gained a prominent position in national debate
- ▶ Invitation of Prime Minister to ILO and IMF to present the case for inclusive growth and SP to the Council of Ministers
- ▶ ↗ 2012/2013 and likely 2014 in National Budget and new pledges from development partners (50 Mil. Usd loan from WB)
 - ↗ nr. Of HH beneficiaries
 - ↗ Increase in the transfer amount

Nr. of HH (thousands) covered by INAS Programs



Evolution of Budget Allocation to INAS Programs – Absolute (Million Usd) and Relative (% of GDP)



Mozambique : Key take-away messages & Challenges ahead

- ▶ Progressively building a Social Protection Floor adapted to the country context:
 - Affordability – does not threaten fiscal sustainability
 - Reduce vulnerability and promote gains in human capital and productivity
 - Important contribution to poverty reduction and national social cohesion
 - Key element to guarantee good economic and social environment essential to the success of internal and external investments

- ▶ Low coverage of current programs
 - Only 20% of poor households
- ▶ Fragmentation and duplication
 - Enhanced coordination and better prioritization
- ▶ Sustainability is not only a fiscal concept – Implementation
 - Can threaten the implementation at field level (lack of single-registry, efficient registration and payment system)
 - Lack of linkages between social protection to key services, (education, health)
 - Lack of good monitoring the well-being of beneficiaries through community case management
- ▶ Natural Resources
 - Improve the fiscal contribution of the mineral sector and use the additional fiscal space for priority infrastructure and social investments, including social protection

Thank You