THE SOCIAL PROTECTION FLOOR COSTING EXERCISE IN MOZAMBIQUE

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Mozambique: One of the Fastest Growing Economies in Sub-Saharan Africa

Real GDP growth in Non-Fuel exporting SSA countries

(averages 1995-2010; in percent)
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.

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

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
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.
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.
Mozambique: Program Costs and Fiscal Space

Scenario A

1. 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.

2. Shows financial capacity to reach the targets without jeopardizing the fiscal equilibrium

3. Estimates a potential positive balance to increase coverage further than current targets

![Graph showing Nr. of Beneficiary Households](image1)

![Graph showing Total Cost as Proportion of GDP](image2)
**Mozambique: Program Costs and Fiscal Space**

**Scenario B**

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

- 2012/2013 and 2014 in National Budget and new pledges from development partners (50 Mil. Usd loan from WB for 5 years)

- nr. Of HH beneficiaries
- Increase in the transfer amount

Mozambique: most recent developments

**Nr. of HH (thousands) covered by INAS Programs**

<table>
<thead>
<tr>
<th>Year</th>
<th>Nr. of HH (thousands)</th>
<th>Transfer amount (Mtm)</th>
</tr>
</thead>
<tbody>
<tr>
<td>2008</td>
<td>167</td>
<td>0.23</td>
</tr>
<tr>
<td>2009</td>
<td>197</td>
<td>0.21</td>
</tr>
<tr>
<td>2010</td>
<td>100</td>
<td>0.24</td>
</tr>
<tr>
<td>2011</td>
<td>254</td>
<td>0.34</td>
</tr>
<tr>
<td>2012</td>
<td>130</td>
<td>0.34</td>
</tr>
<tr>
<td>2013</td>
<td>338</td>
<td>0.51</td>
</tr>
<tr>
<td>2014</td>
<td>439</td>
<td>0.51</td>
</tr>
</tbody>
</table>

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

<table>
<thead>
<tr>
<th>Year</th>
<th>% of GDP</th>
<th>USD - Million</th>
</tr>
</thead>
<tbody>
<tr>
<td>2010 (CGE)</td>
<td>0.23</td>
<td>0.00</td>
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<tr>
<td>2011 (Lei)</td>
<td>0.21</td>
<td>0.00</td>
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<tr>
<td>2012 (Lei)</td>
<td>0.24</td>
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</tr>
<tr>
<td>2013 (Lei)</td>
<td>0.34</td>
<td>0.00</td>
</tr>
<tr>
<td>2014 (Proposta)</td>
<td>0.51</td>
<td>0.00</td>
</tr>
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Mozambique: The Review of the Basic Social Security Strategy

• Currently the Government is evaluating the implementation of the Strategy – what worked? what targets were not reached and why?

• It will be followed by a process of dialogue around policy options based on an analysis of coverage gaps and costing of the different options.

• Will lead to the design of a new Strategy

• Challenges:
  • How to extend the dialogue to a wide group of stakeholders?
  • How to promote the participation of key departments in the exercise?
End of the presentation

Obrigado