Extension of Social Security

Towards a Mozambican Social Protection Floor

Consolidating a comprehensive social protection system in Mozambique:
Analysis of policy alternatives and costs

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ESS – Paper Nº 41

International Labour Office
International Monetary Fund
Oxford Policy Management

ILO Cataloguing in Publication Data

Cunha, Nuno; Pellerano, Luca; Mueller, Johannes; Lledo, Victor; Xiao, Yuan; Gitton, Patrick

Towards a Mozambican social protection floor: consolidating a comprehensive social protection system in Mozambique : analysis of policy alternatives and costs / Nuno Cunha, Luca Pellerano, Johannes Mueller, Victor Lledo, Yuan Xiao, Patrick Gitton ; International Labour Office, Social Protection Department. - Geneva: ILO, 2013

ESS paper ; No.41; ISSN 1020-9581; 1020-959X (web pdf)

International Labour Office

social protection / social security / scope of coverage / social security policy / social security financing / cost / ILO Recommendation / comment / Mozambique

02.03.1

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Printed in Switzerland

Foreword and acknowledgements

As a response to the deepening financial and economic crisis of 2008 and the need to promote inclusive growth in its aftermath, the United Nations System, the International Monetary Fund (IMF), and the World Bank agreed on joint 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 came to be known, was approved by the United Nations System Chief Executives Board (UN-CEB) in April 2009, with a view to providing support for countries in planning and implementing sustainable cash and in-kind social transfer schemes and essential social services. It called on a global coalition involving other multilateral and development partners, including bilateral donors and international non-governmental organizations (NGOs), to cooperate and coordinate their activities at the national, regional and global levels (UN-CEB, 2009).

In 2010, the International Labour Organization (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 [1].

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). 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.

According to the Recommendation, 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 by 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 (ILO, 2011a; see also ILO, 2012). 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» (ILO, 2011a., para.9) while the «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. 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» (ibid., para. 31).

[1] As stated in the press release from the joint Conference held in Oslo on The Challenges of Growth, Employment and Social Cohesion, available at: http://www.imf.org/external/np/sec/pr/2010/pr10339.htm.

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 have made clear the need for new policy approaches. In this quest for a more inclusive policy model in Mozambique, social protection has become a more central element in the policy debate; the engagement of the authorities in close association with UN agencies and development partners have 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 – albeit cautiously – 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 National Strategy for Basic Social Strategy (ENSSB) and Strategic Operational Plan for Basic Social Security 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 (the ILO, the United Nations Childrens' Fund (UNICEF), the World Food Programme (WFP), the IMF and the World Bank) and development partners (the Netherlands, the Swedish International Development Cooperation Agency (SIDA) and the United Kingdom Department for International Development (DfID)) are jointly working to assist the country in the implementation process.

This report has the objective of documenting the key elements of the ongoing 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 World Bank-led review of existing basic social protection programmes; (ii) costing simulations of the programmes under the Operational Plan conducted by the ILO and UNICEF, with technical support from Oxford Policy Management (OPM) [2]; and (iii) an IMF-led analysis of the fiscal space available to implement such programmes [3]. 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 ongoing policy reform in Mozambique: ministries and institutions in charge of social protection policies (Ministry of Finance, Ministry of Labour, Ministry of Women and Social Action, National Institute of Social Action, 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 in 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.

[2] 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.

[3] The macroeconomic assumptions underlying this paper are based on IMF, 2013.

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.

This report was prepared by an author team of staff of the ILO, IMF, and OPM. The views expressed herein are those of the authors and should not be attributed to their parent organizations, the Executive Boards of those organizations, their management, or any of their official policies.

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Abbreviations and acronyms

ART	antiretroviral treatment
CGE	computable general equilibrium analysis
DFiD	UK Department for International Development
EAP	economically active population
ENSSB	Mozambican National Strategy for Basic Social Security
FAO	Food and Agriculture Organization
GDP	gross domestic product
HBS	Household Budget Survey (see IOF)
HH	household
HIPC	heavily indebted poor country
IFS	Institute for Fiscal Studies
ILO	International Labour Office/Organization
IMF	International Monetary Fund
INAS	Instituto Nacional da Acção Social (National Institute of Social Action)
INE	National Institute of Statistics
INSS	National Institute of Social Security
IOF	Inquérito ao Orçamento Familiar (Household Budget Survey)
MDRI	Multilateral Debt Relief Initiative
MISAU	Ministério de Saúde (Ministry of Health)
MMAS	Ministério da Mulher e Acção Social (Ministry of Women and Social Action)
MoF	Ministério das Finanças (Ministry of Finance)
MPD	Ministério da Planificação e Desenvolvimento (Ministry of Planning and Development)
MT	Metical (currency)
NGO	non-governmental organization
OHCHR	UN Office of the High Commissioner for Human Rights
OPM	Oxford Policy Management
OVC	orphans and vulnerable children
PARP	Plano de Acção para a Redução da Pobreza (Poverty Reduction Strategy)
PASD	Programa de Apoio Social Directo (Direct Social Action Programme)
PASP	Programa de Acção Social Produtiva (Productive Social Action Programme)
PES	Social and Economic Plan

PFM	Public Financial Management
PSA	Programa Subsidio de Alimentos (Food Subsidy Programme)
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
UN-CEB	United Nations System Chief Executives Board
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
WFP	World Food Programme
WHO	World Health Organization
WMO	World Meteorological Organization

1. Introduction

Recent years have been marked by significant institutional strides in the area of social protection in Mozambique, leading to initial but important steps in the progressive establishment of a national social protection floor, including 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 in the approval of a new Strategic Operational Plan for Basic Social Security programmes in 2011, henceforth referred to as the Operational Plan. This progress has been accompanied by small but sustained increases in government budget allocations to the sector which have laid the groundwork 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 in achieving both objectives. However, a large informal economy renders traditional contributory social insurance mechanisms incapable of reaching the most vulnerable households in the short to medium term. This has prompted the current focus on basic (non-contributory) social protection programmes as a central instrument in the country's development framework (MPD, 2011).

The Ministry of Women and Social Action (MMAS) is the line ministry responsible for the existing main basic social protection programmes in the country. Although relatively small in coverage and budget allocation, the National Institute of Social Action (INAS) – MMAS' programme implementation body – has a long and well-established tradition of managing in-kind and cash transfer programmes 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 ongoing implementation of the 2011 Operational Plan, a key catalyst of the social protection floor in Mozambique. This plan has helped to clarify the overall objectives described by the ENSSB and set important elements of reform of the social protection system in the country. It contains indications for new programmes 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; and
- 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 on 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 programmes and their social impact. One of the main conclusions from this report is that progressively expanding an 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 from reprioritizing expenditures, such as phasing out the ill-targeted fuel subsidy. For the social protection floor, a budget allocation of around 0.8 per cent 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 programmes would need to compete with other government priorities. With respect to the social impact, this report draws on ongoing policy discussions among local stakeholders and policy recommendations in a recent World Bank study (2012) and simulates the social impact and costs of alternative social protection programmes to be implemented after 2014. Such programmes would be critical in making a social protection floor in Mozambique a reality.

It is not this report’s main objective 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 the report 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 has 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 Social Protection Floor (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 System Chief Executives Board, which adopted the Social Protection Floor (SPF) as one of its Joint Crisis Initiatives in 2009, with the ILO and the World Health Organization (WHO) as lead agencies. This Initiative supports countries in planning and implementing 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.

Strengthened collaboration between the ILO and IMF 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».

The ILO Social Protection Floors Recommendation, 2012 (No. 202) was adopted at the 101st Session of the International Labour Conference 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» (ILO, 2011a, para.31). 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» (ibid. para.9).

According to Recommendation No. 202 (paras. 4 and 5), **national social protection floors should comprise at least the following four social security guarantees, as defined at the national level**:

(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 services;

(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; and

(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 in 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 World Bank) 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. Approximately half its citizens are children under the age of 18. Some key socio-economic indicators are reported in table 2.1.

Table 2.1. Mozambique: Socio-economic indicators, various years 2007–13

Population[1]	24 012 014
Age structure (%)[1]	
0–14 years	45.2
15–59 years	50.1
60 years and over	4.7
Under-5 mortality rate (per 1,000 live births), both sexes[2]	141
Maternal mortality ratio (per 100,000 live births)[3]	5 001
Chronic malnutrition (stunting) (%)[2]	44
Poverty headcount (%)[4]	54.7
GDP per capita	
Current US$[5]	650
PPP (current international)[6]	1 149
Constant local currency[6]	7 217
Human Development Index ranking[7]	184

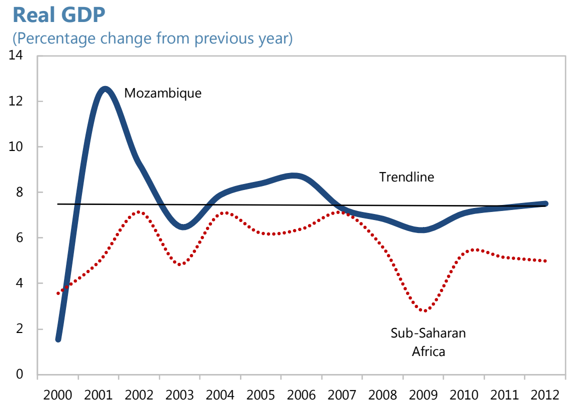
Sources: [1] Population projections for 2011 produced on the basis of the INE 2007 census. [2] INE, 2011. [3] INE, 2007 Census. [4] MPD, 2010. [5] IMF, 2013. [6] IMF, 2012a. [7] UNDP, 2011.

Mozambique is seen as a country with enormous potential, but also with severe challenges. At the end of the civil war in 1992 it 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 socio-economic 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 per cent in 1997 to 54 per cent in 2003). The economy kept growing at about 7.6 per cent per annum from 2005 to 2009 (MPD, 2011) (see box 2.2).

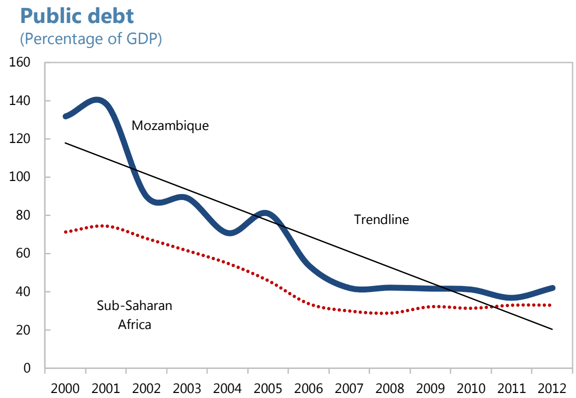
Box 2.2
Macroeconomic and fiscal context

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

Strong growth record



Improved debt position



Source: Mozambican authorities; IMF staff estimates and projections (IMF, 2013).

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 per cent over the medium term, on account of new activity in the natural resource sector and stepped-up public investment (IMF, 2013).

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

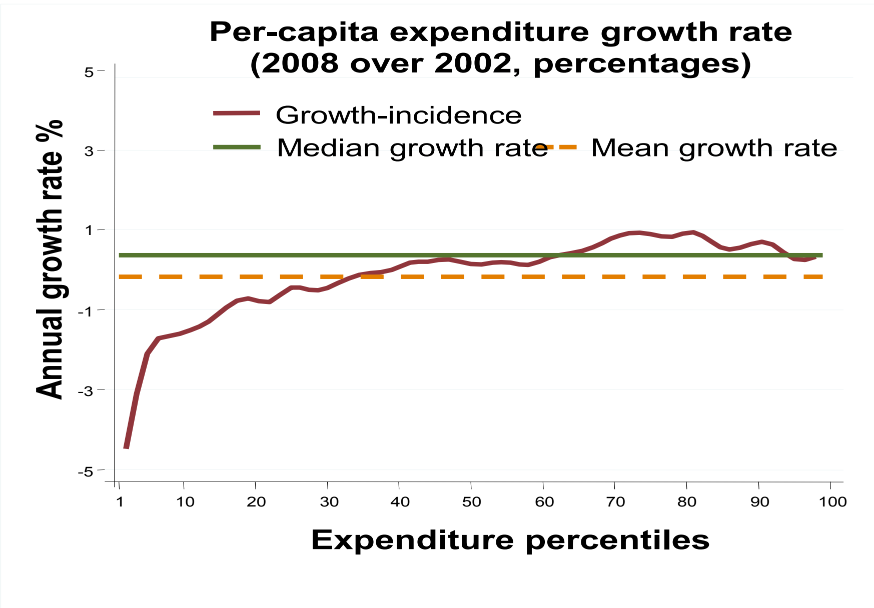
Despite this strong macroeconomic track record, poverty reduction has not been proportional to the economic growth in recent years. The recent National Poverty Assessment Report (MPD, 2010) shows that no improvement in eradicating poverty was achieved between 2003 and 2008. According to the report, the rate of absolute poverty stagnated and remained at a high 54.7 per cent in 2008/09. 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 on the cost of living. These trends 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 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, of which the vast majority (more than 60 per cent) are self-employed, around a quarter are unpaid family workers, and only 10 per cent are salaried employees (4.1 per cent civil servants and 6.8 per cent in the private sector) (ILO, 2011b). 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), as shown in figure 2.1.

Figure 2.1. Poverty record not proportional to economic growth, 1996–2009



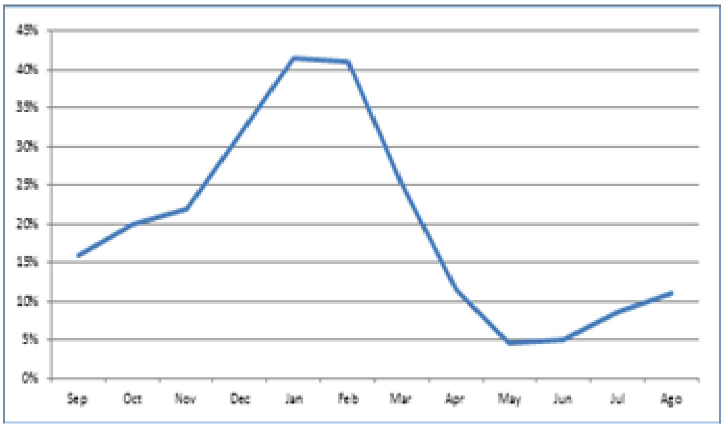
Sources: Government of Mozambique, and IMF, 2011.

2.2.3. Vulnerability analysis

The most recent Household Budget Survey data (Inquérito ao Orçamento Familiar − IOF) (INE, 2008/09)) indicate 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 such as droughts, cyclones and floods, and to external economic shocks such as variations in fuel or food prices and local economic downturns. Especially in rural areas, small productivity gains can easily be lost by adverse external factors leading to crop loss. Seasonality is one of the main drivers of the food insecurity that according to estimates by the World Food Programme (WFP) affects about 20 per cent of the Mozambican population (WFP, 2010). Food insecurity increases sharply between October and February, as shown in figure 2.2; climate plays a major role, particularly in areas more prone to drought.

Figure 2.2. Percentage of households reporting food shortages, September–August annually



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

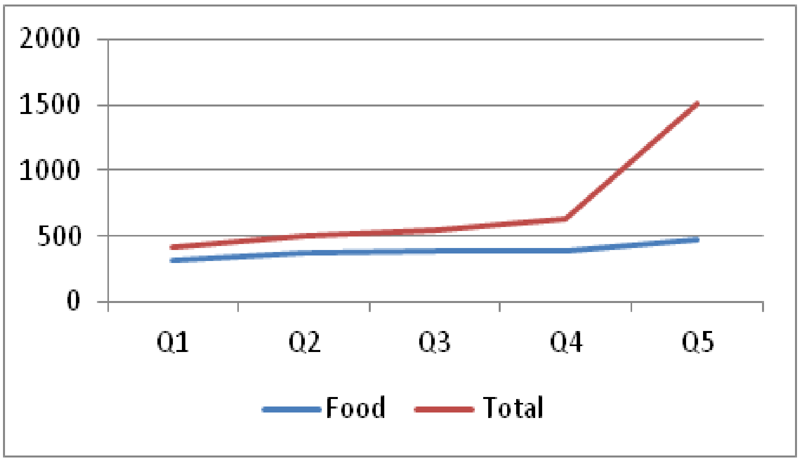
Moreover, there is a strong correlation between food insecurity, poverty, and lack of assets (WFP, 2010), as well as between the high prevalence of chronic malnutrition (around 44 per cent according to INE, 2008), lack of information and low coverage of public health services.

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 per cent, (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 (World Bank, 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 per cent in regions such as 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, whether seasonal or annual [1].

The World Bank's Social Protection Assessment (World Bank, 2012) shows that there is little difference in food and non–food average consumption levels across the first four wealth quintiles (figure 2.3) [2]. 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 2.3. Food and total consumption, 2008–09 (MT per capita per month)



Source: World Bank, 2012 on the basis of IOF (INE, 2008/09).

2.2.4. 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 statutory social security framework. This has two key legal components: the Social Protection Law (Law 4/2007) and 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 programmes.

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» (see box 2.3) and creates the basis for a different set of funding mechanisms (tax- and insurance-based).

It was as part of the effort to develop the first pillar that 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 into four different areas of intervention:

[1] According to the World Bank Social Protection Assessment (World Bank, 2012) on the basis of the latest Household Budget Survey (INE, 2008/09), 60 per cent of all Mozambicans fall 10 per cent below the poverty line, and two-thirds 25 per cent below the poverty line.

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

- **Direct social action**. Managed by the Ministry of Women and Social Action (MMAS), this intervention comprises 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 (MISAU), this intervention assures universal access of the most vulnerable populations to primary health care.

- **Education social action**. Managed by the Ministry of Education, this promotes the participation of the most vulnerable populations in the education system.

- **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.

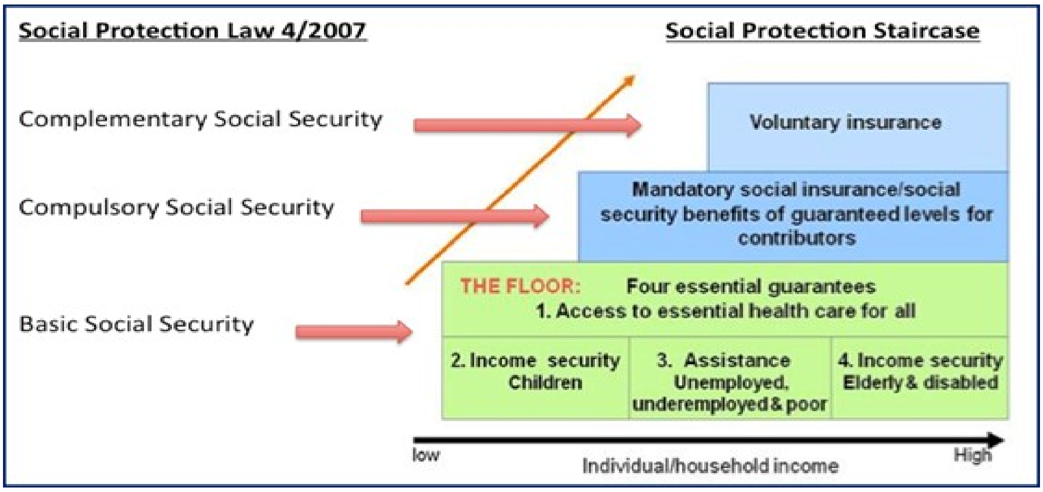
With the exception of productive social action, most basic social security areas are heavily targeted at households facing a situation of permanent vulnerability related to their more structural poverty nature. Productive social action programmes, on the other hand, more closely target individuals facing shocks that would lead them into 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. It 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 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, while statutory coverage was extended to the self-employed in 2007. The pillar also comprises a subsystem for civil servants (including the 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 and Cunha, 2011).

The third pillar – complementary social security – was created to cover the private mechanisms that complement the benefits under the obligatory pillar, but so far no specific regulations or mechanisms have been developed.



Source: ILO, 2011b.

In 2010 the Government approved the National Strategy for Basic Social Security (ENSSB). This sets three main objectives for the period 2010–14: (a) extending the coverage and the impact of interventions; (b) increasing the efficiency of the system; and (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, progressiveness, equity, inclusion, multi-sectoriality, efficiency, solidarity, subsidiarity, participation and accountability [3]. The concept of universality, together with the idea of gradual extension of the coverage according to the country's capacity, and the comprehensive organization into the four areas of intervention 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 programmes. This Operational Plan will be the basis for the implementation of the ENSSB in the areas of direct and productive social action for the period 2012–14. 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 programmes:

- **Basic Social Subsidy Programme (PSSB)**. This is a cash transfer programme targeting extremely poor households in which no adult is able to work (households headed by the elderly or by persons with disabilities).

- **Productive Social Action Programme (PASP)**. This consists of direct employment in public-works projects aimed at building or upgrading infrastructure in poor and vulnerable communities, and by providing training programmes 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.

- **Direct Social Action Programme (PASD).** This provides short-term support to households that are temporarily vulnerable.

2.2.5. Effective coverage of social protection [4]

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

The low coverage by contributory schemes is of course a direct consequence of the nature of the labour market (given the preponderance of the informal economy and subsistence farming) and the fact that the system is in its early days. Insurance is restricted to resident (including foreign) salaried workers, civil servants and military officials and

[3] Another important aspect of the ENSSB is to place the household at the heart of the system. According to this, 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 transfer amounts to household size and demographic characteristics.

[4] This section introduces some basic information regarding the coverage provided by each pillar. For further details, the authors advise consultation of the recent World Bank Social Protection Assessment (World Bank, 2012) and the ILO Diagnosis of the National Institute of Social Security (Picado-Chacun, Valverde and Bricano, 2010).

their families. Although statutory coverage was extended to the self-employed in 2007, there has so far been operational translation of this juridical measure and therefore no effective coverage of the self-employed through social insurance. The percentage of workers covered by INSS in 2011 was only 4.3 per cent of the economically active population (EAP) [5]. In 2012 the number of insured workers expected to contribute to INSS was 311,484, and 222,710 for the Civil Servants Scheme (ILO calculations based on a forthcoming actuarial study).

Old-age pensions covered around 12 per cent of the total population aged 60 or over in 2012: an estimated total of 167,187 pensioners, 50 per cent of them military; 25 per cent civil servants and 25 per cent from the private sector. The other short-term benefits provided by INSS (including sickness, survival and funeral grants) reached fewer 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 for the majority of the population, as reflected by recent government decisions.

2.2.6. Basic social security programmes: State of the sector before the recent reform

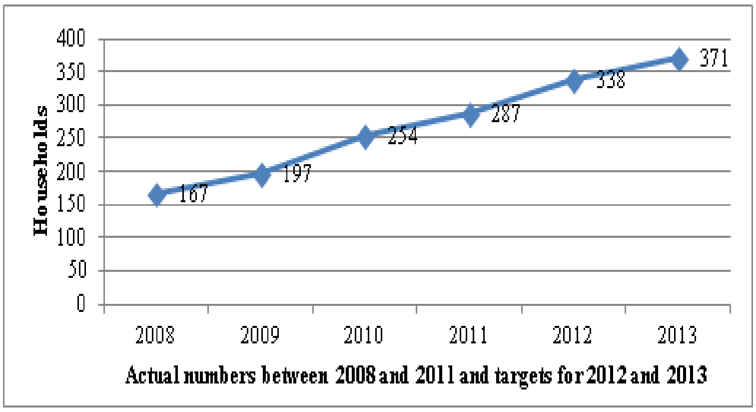
This section presents a brief outline of the main social protection programmes operating in Mozambique prior to the recent reform [6]. The analysis focuses on interventions that are closer to the definition of the four basic social security guarantees that constitute the core of national social protection floors, as set out in Recommendation No. 202 (para. 5), and more particularly the guarantees of basic income security, implemented in Mozambique by the National Institute of Social Action (INAS), and which correspond to the areas of intervention in direct social action and part of productive social action [7].

[5] The EAP comprises all persons of either sex who supply labour for the production of goods and services during a specified time reference period (see ILO, www.laborsta.ilo.org).

[6] This analysis is based on information produced under the World Bank's recent Social Protection Assessment for Mozambique (2012) 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 by OPM for UNICEF (Hodges and Pellerano, 2010a) also provides useful insights and analysis of existing social protection programmes. For further information on the coverage provided by other programmes (not operated by INAS) see World Bank, 2012.

[7] The guarantee of access to essential health care is not discussed here, as these programmes are managed by other sectors and were not targeted by the reforms. For further information on health expenditures and programmes, see the World Bank Social Protection Assessment (World Bank, 2012).

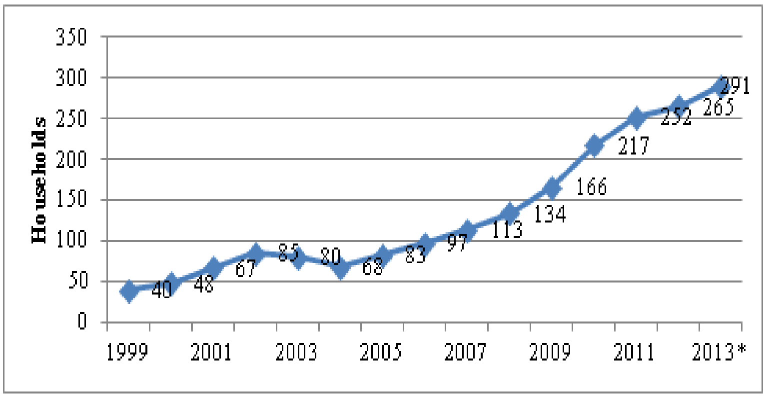
Figure 2.4. Coverage of basic social security programmes, 2008–13 (households, in thousands)



Sources: 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 the number of households covered by the **direct social action** programmes under INAS since 2008. The most representative programme is the formerly denominated **Programa Subsidio de Alimentos (PSA, Food Subsidy Programme)** [8], the largest social transfer programme in Mozambique and one of the longest established government-funded programmes 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 to reach an estimated 265,000 direct and 495,000 indirect beneficiaries in 2012 (figure 2.5). It has national coverage, with presence in all the 128 Districts of the country, and until 2008 it was fully funded by domestic resources. The vast majority of beneficiaries (almost 95 per cent) are elderly. Box 2.4 provides an assessment of the PSA.

Figure 2.5. Evolution of the number of PSA beneficiary households, 1999–2013 (thousands)



Source: INAS reports (2013 figure is a target).

[8] Recently renamed the Programa Subsídio Social Básico (PSSB).

Box 2.4
Assessment of the Food Subsidy Programme (PSA)

The PSA is seen by MMAS/INAS as well as by 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 from OPM by UNICEF (Hodges and Pellerano, 2010a) highlights the following areas of concern regarding its design and implementation that are going to be addressed through the recent reform.

Low coverage. Despite its expansion in the past few years, the PSA reaches only a subset of eligible households. Initially an urban programme, the PSA has been extended to rural areas and now covers all provinces and districts, but not yet in all communities within them. Unfortunately there is no consolidated information on the proportion of eligible households covered to date.

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. 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 per cent) of eligible households would be non-poor (Hodges and Pellerano, 2010b). 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. 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 is probably due to a combination of problems, including lack of documentation (birth registration), financial incentives at the INAS delegation level and the strict interpretation of the Procedures Manual. For instance, 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.

Progressive erosion of real transfer value. According to the 1993 Decree on the PSA, the transfer is supposed to be 30 per cent 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 per cent of the minimum wage. Several studies (Collier and MacAskill, 2005; Taimo and 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 it has been increased from MT 70 in 2007 to MT 130 in 2011, including also an increase in the amount transferred to dependants. More recently, the Government has approved an increase of the transfer amount of the now denominated PSSB to MT 250 for a household with one member (25 per cent per each additional dependant), which represents 10 per cent of the current minimum wage.

Under the umbrella of the **Programa de Apoio Social Directo (PASD, Direct Social Action Programme),** INAS currently manages 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, those chronically ill in bed [9], 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. An assessment of the PASD is provided in box 2.5. 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 Direct Social Action Programme (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 Operations Manual is still pending) and at the delegation level (generally attached to a traditional view about the objectives and implementation modalities). Weaknesses of the programme have 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 basis, until funds are available. In recent years most of the budget has been spent 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-à-vis the needs of the broad target population. INAS delegations 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 are 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. The PASD is a national programme but its actual coverage is extremely low.

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.

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 unsystematic way. The nature of social protection interventions changes when one moves from providing assistance to destitute households (as carried out by the PSA and PASD) to promoting income security for households to regain capacity to provide for their own welfare. There has been a tendency for INAS to attempt to provide «graduation» from poverty in isolation rather than in coordination with other agencies and government institution. This led to the setting up of small programmes (**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 ineffective. An assessment of the productive social action programmes is shown in box 2.6.

[9] As opposed to those who are chronically ill but not bedridden who are currently attended to through the PSA.

Box 2.6
INAS and productive social action programmes

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 and others.) 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 microcredit) hence maximizing the need for a direct sustainable impact and avoiding the complexity of inter-institutional coordination. Overall, this strategy has proved largely ineffective, as it provided means of protection and promotion in a fragmented way, lacking systematic 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 changed, following the idea that the INAS mandate should consist of providing a floor of minimal (income) protection, 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 (income security) of the ladder out of poverty to a large number of households in a systematic way, rather than the whole ladder to few households.

2.2.7. The social protection budget [10]

According to the World Bank assessment (World Bank, 2012) Mozambique spent 3.7 per cent of GDP on social protection in 2010. This includes both the contributory (2 per cent) [11] and non-contributory (1.7 per cent) pillars. Based on a cross-county comparison, the World Bank concludes that overall social protection expenditure in Mozambique is lower than the average of other countries in the region (see table 2.2) [12].

Table 2.2. Regional expenditures in social sectors compared to Mozambique, 2010 (percentage of GDP)

Country	Social protection			Education	Health	Total
	Social insurance	Social assistance	Total			
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: World Bank, 2012.

Moreover, the budget allocation to social protection is currently biased by the high investment in non pro-poor transfers – is the case of the fuel subsidy, an extremely regressive type of subsidy that has been disregarded in the budget analysis here, but which corresponded to 1.4 per cent of GDP in 2010 (World Bank, 2012).

[10] It is not the purpose of this document provide an exhaustive social protection expenditure review. For a more exhaustive analysis of this topic see World Bank, 2012.

[11] The amounts spent on social insurance are expected to decrease to 1.7 per cent of GDP in 2012: 0.55 per cent for INAS beneficiaries, 0.54 per cent to civil servants and 0.67 per cent to the former members of the military services.

[12] The World Bank document from which these figures were taken (World Bank, 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 reach a consensus on which expenditures should or should not be classified as social protection. Some of the expenditures included in the World Bank assessment can be questioned on those grounds, so that the amounts could be different to those presented here. Further work with the Ministry of Finance and line ministries involved in social protection is needed to clarify the classification.

For the purpose 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 programmes 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 per cent of GDP between 2008 and 2012 (table 2.3), including transfer costs and administrative costs estimated at around 30 per cent of the transfer costs.

Table 2.3. Nominal INAS expenditure on basic social security programmes (MT millions)

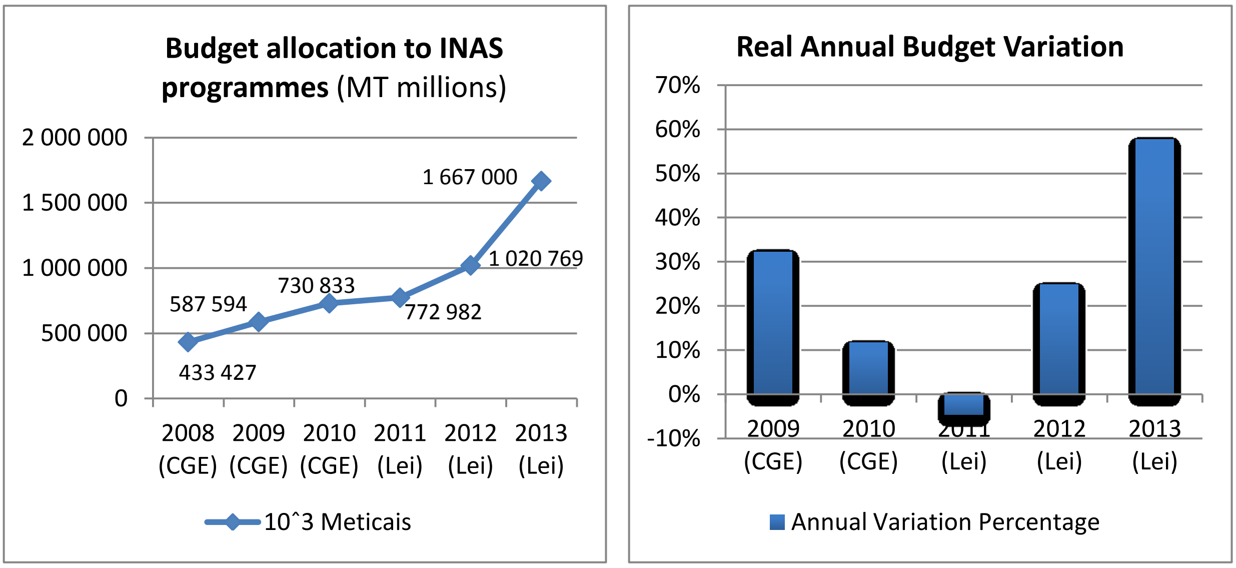
	2008	2009	2010	2011	2012[1]	2013 [1]
INAS programmes	386	487	704	717	1 059	1 667
Total (% of GDP)	0.16	0.18	0.22	0.19	0.25	0.35

Note: [1] Estimated. Values reported in table 2.3 include the transfer from development partners (DFiD and the Netherlands) to the PSA. In 2012 the Government is also implementing the Pilot for productive social action, with funding from the World Bank and Sweden. This is not included in the estimates presented.
Source: INAS reports and authors' estimates.

Although donor financial support (DFiD and the Netherlands) has become available to INAS in recent years, the funding of existing programmes remains primarily domestic. This distinguishes the programme from the 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 MT 165 million, around 30 per cent of the total budget of the PSA.

Figure 2.6 shows that the budget allocations to INAS programmes has increased steadily since 2008. This positive historical trend in allocations has permitted an increase in the number of PSA beneficiary households, and an increase in the base PSA benefit amount from MT 70 in 2007, to MT 100 in 2008, 130 in 2011 and 250 for 2013 [13].

Figure 2.6. Budget allocation for INAS programmes and real annual variation, 2008–13



Sources: INAS annual reports, UNICEF/FDC Social Action Budget Brief (2011), PES, 2012: Budget Proposal for 2013.

[13] Value for a household with one beneficiary. The amount is increased by 25 per cent each additional dependant, up to a maximum of four dependants.

These allocations are 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 very limited coverage in terms of the number of beneficiaries, and reduced impact. A strategy of concentration in some priority programmes could increase effectiveness and efficiency in the system as a whole.

Table 2.4 provides some further insights into MMAS and INAS institutional spending, besides the programme costs. It clearly points to the fact that recurrent and investment costs have higher than programme costs in some years. The positive fact is that this relationship is changing: MMAS and INAS running and investment costs have moved from 139 per cent of the transfers in 2008 to 53 per cent in 2012. Most of the efficiency savings, however, seem to have come from MMAS rather than INAS. Without entering into an analysis of 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.

Table 2.4. MMAS and INAS institutional spending, executed budget 2008–12 (MT millions)

	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 programme costs (%)	139	114	72	71	53
Ratio INAS institutional costs / programme costs (%)	21	26	26	19	26
Total (institutional + programme costs) as a % of GDP	0.22	0.21	0.16	0.14	0.14

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 transfers.

Sources: OE and CGE 2008, 2009, 2010, 2011, 2012; INAS reports.

2.2.8. 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 (World Bank, 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 youth are left out. This in turn reflects the limited budget allocations that are made to the sector, despite the positive trend in relative years.

Programme 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 were rarely of the dimension to ensure the impact that is expected from a social protection programme. 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 ILO Recommendation No. 202 (para.5 (b), (c) and (d), and promoted by the SPF Initiative, leads one to conclude that only basic income security for older persons, the disabled and the 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 [14]. The guarantee of basic income security for children was also secured only for children in labour-constrained households, leaving uncovered the vast majority of them. In addition, there was no guarantee of income for the unemployed, underemployed or temporarily unable to work (due to sickness or chronic illness). Some of these elements have improved with the provisions introduced in the new Operational Plan [15].

Finally, even within an ideal fiscal scenario, an enormous challenge would still remain, in the operational capacity to deliver the programmes in an effective and efficient way. It is unanimously recognized that the current systems, including their human resources, 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. A significant effort in terms of institutional capacity building will therefore need to take place in order to allow a progressive, sustainable and efficient extension of coverage and allow the progressive extension of the social protection floor.

[14] In 2012 the programmes implemented by INAS did not cover more than 15 per cent 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 number of old-age pensioners in the contributory system did not reach more than 168,000 persons, and the PSA was limited to 265,000 households, against a potential number of more than 1,300,000 individuals and around 900,000 households.

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

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 the following important objectives:

- the 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;
- 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 for 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;
- an 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 the aim of clarifying the respective domains of application and improving the generosity of transfers; and
- 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, Basic Social Subsidy Programme)** – monthly cash transfers for an unlimited period targeted to households without any adult able to work (e.g. households headed by an elderly person, a 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 amounts, and a more accurate definition of eligible households.

– **Programa de Apoio Social Directo (PASD, Direct Social Action Programme)** – 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 (including child-headed households, households headed by pregnant women, households with breadwinners who 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 antiretroviral treatment (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.

– **Programa de Apoio às Unidades Sociais (Social Assistance Services)** – residential care and institutional support for vulnerable or abandoned children, the elderly, victims of violence and the homeless who require intensive care services.

– **Programa de Acção Social Produtiva (PASP, Productive Social Action Programme)** – 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 run by other ministries supporting income-generating activities.

The Operational Plan describes the main design elements of the four interventions, and includes a coverage plan and a budget projection. The fine-tuning 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 those programmes approved in the Operational Plan.

Table 3.1. Programme design parameters [16]

	Eligible group	Target categories	Type of transfer	Number of payments per year (frequency)	Monthly transfer value	Monthly transfer amount (2013)	Additional targeting
Programa Subsidio Social Básico (PSSB)	Permanently labour-constrained households	With an elderly member (aged 55+ for females and 60+ for males) and no able-bodied adult	In cash	6 (bi-monthly)	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 dependants	MT 253. (main benefit) + MT 63 per dependant	Households in the poorest 4 quintiles of the total population
		With a chronically ill member and no able-bodied adult					
		With a disabled member and no able-bodied adult					
Programa de Apoio Social Directo (PASD)	Temporarily labour-constrained households + households facing shocks	Child-headed (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 MT 985 (proposal to adjust composition to household size)	Households in the poorest 4 quintiles of the total population
		With adult members temporarily unable to work and no able-bodied adult					
		With elderly, disabled or chronically ill bedridden members in bed and no able-bodied adult					
		With adult members on ART and severely acute malnourished					
		With severely acute malnourished children					
		Facing a temporary shock (one-off support)		1	Varies	Varies	Not specified
Programa de Apoio às Unidades Sociais	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	Not applicable	Not applicable	Not applicable	Not applicable
Programa de Acção Social Produtiva (PASP)	Non labour constrained households	Households with at least one able-bodied adult		Rural: 4 (monthly)	Value of the poverty line (fixed per household)	MT 650	Rural: 15% of households identified with a combination of geographical, categorical and poverty targeting
		Priority given to: female-headed households; households with elderly, disabled or chronically ill members; with malnourished children; with high dependency rates; fostering families		Urban: 6 (monthly)			Rural: 25% of households identified with a combination of geographical, categorical and poverty targeting

[16] 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 and will be classified as one of three categories: (a) permanently labour-constrained; (b) temporarily labour-constrained; (c) not labour-constrained. Households will be allocated to programmes accordingly (see table 3.2).

Table 3.2. Routes of access to the social protection floor

Household type		Type of programme	Programme name
Permanently labour-constrained	Poor with elderly members and no able-bodied adult Poor with disabled or chronically ill members and no able-bodied adult	Long-term cash transfers	Programa Subsídio Social Básico (PSSB)
	Poor with members requiring intensive care (and no adult carer)	Institutional care	Apoio às Unidades Sociais
Temporarily labour-constrained	Child-headed households Poor with adults temporarily unavailable to work and no able-bodied adult (e.g. pregnant woman head of household)	Short-term in kind/cash transfer	Programa de Apoio Social Directo (PASD)
Not labour-constrained	Poor with at least one able-bodied adult (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 for one or another arm of the social protection system. When households 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 them 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 focused on contributing to growth and productivity increases. 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 an opportunity to create a direct link between social protection and productivity enhancement (hence growth) in the short/medium term.

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 household has residual labour capacity it is not eligible for 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 benefiting their 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 has), 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 redefinition of the PASD target groups constitutes 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 due to a temporary condition – Guarantee (c). 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, the system still offers important scope for improvements if the objective is to cover the guarantees as defined in the SPF.

3.1.1. Rationale for 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 (INE 2008/09) [17].

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. Following current INAS practice, children are individuals younger than 18, and the definition of «able-bodied» 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 who do not have a medical disability condition [18]. At this stage the representation ignores additional geographical and poverty targeting of the different interventions.

Table 3.3. Distribution of household types and household composition

Household types		Distribution of households (%)			Demographic composition				
		Total	Urban	Rural	Household size	Dependency ratio	Average number of children 0-17	Average number of elderly	Average number of disabled or chronically ill adults
Permanently labour-constrained	Elderly, no able-bodied	8.1	5.2	9.2	2.3	1.0	0.9	1.4	0.0
	Chronically ill/disabled, no able-bodied	0.2	0.2	0.3	2.2	1.0	1.1	0.0	1.0
Temporarily labour-constrained	Child-headed	0.1	0.2	0.1	1.7	1.0	1.7	0.0	0.0
	All able-bodied temporarily unable to work	1.5	2.4	1.1	4.4	0.7	2.2	0.5	0.6
Not 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 (INE, 2008/09).

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 per cent of households). In this group are included households with elderly and no able-bodied adults (8 per cent), and households with disabled or chronically ill members and no able-bodied adults (0.2 per cent). 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-bodied adults) are generally smaller (2.3 members on average) and contain a lower number of children than the rest of the population. Evidence

[17] The Inquérito ao Orcamento Familiar (IOF, Household Budget Survey) provides a representation of the demographic, socio-economic and welfare conditions of all households in Mozambique. However it must be borne in mind that statistical definitions do not exactly match the fine print of the operation manuals 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.

[18] This is different from the definition of chronic illnesses and disabilities that determine PSSB eligibility according to the current operations manual. It is not possible to map the latter onto the IOF 2008/09 data. The medical disability conditions reported in the IOF 2008/09 are: blindness, mute, deaf-mute, mental retardation, paralysis, amputated/atrophied arm, amputated/atrophied leg (INE, 2008/09).

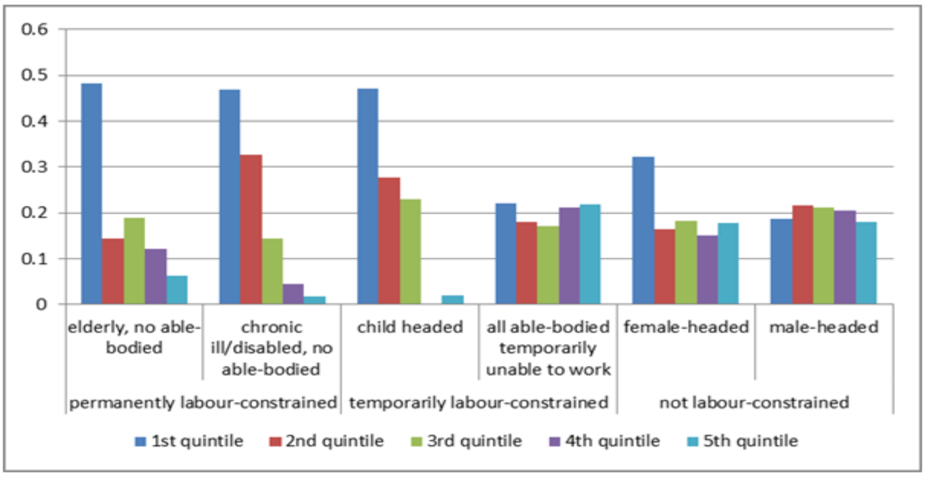
however indicates that a sizeable proportion of current PSSB beneficiaries do not respect the eligibility criteria, not including an adult member able to work. In some cases, this might result from a broad interpretation of the meaning of «household with no able-bodied members», in which the ability to work is replaced by some INAS officials by the ability to provide enough income to the household.

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 [19], and households with at least one member with labour capacity who is however unable to work due to a temporary impediment or constraint. Roughly 1.6 per cent of households fall into this category. However, this probably constitutes a downward-biased estimate of the target groups of PASD, as the IOF does not 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 [20] 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 for temporary inability to work.

The third category includes households where at least one adult member has residual labour capacity, who should be targeted to access the new Productive Social Action (PASP) Programme. It is evident that the vast majority of Mozambican households (almost 90 per cent) have at least one able-bodied member with labour capacity; slightly more than one-fifth of these households are female-headed. Dependency ratios are higher amongst female-headed households with labour capacity than in households with able-bodied males.

Based on the data available in the IOF 2008/09, it is also possible to analyse the relative welfare of households in the three categories against the overall wealth distribution in the country. Figure 3.1 shows welfare quintiles constructed on a basis of a multidimensional wealth index.

Figure 3.1. Distribution of household types by wealth index quintile, 2008−09



Source: Authors' calculations on IOF (INE, 2008/09).

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

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

Labour-constrained households have the largest representation in the poorest quintiles of the population distribution (to the left in figure 3.1): about half of households with elderly members, chronically ill or disabled members and no able-bodied adults belong to the poorest 20 per cent of the population, and this is similar for child-headed households. Households temporarily unable to work have also a slightly higher representation in the first quintile (22 per cent). Amongst households with residual labour capacity, female-headed households are poorer than male-headed households (32 per cent 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), a significant increase in transfer values and a sustained expansion of coverage in order to become a quasi-universal scheme to cover the (relatively small) number of totally labour-constrained households in the country. This process has 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 on a 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, specifically the economic development agenda as well as policies in the areas of labour market, human capital accumulation and productivity enhancement, rural development and mitigation of climate shocks, among others. While the «graduation» of this group from poverty cannot be considered the only mandate of INAS/MMAS, its mission can consist in providing a first step on the ladder out of poverty through some form of 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. Being unable to count on any income security mechanism during times of severe hardship seems to have significant consequences on the welfare of such households and is likely to substantially increase their vulnerability in the future if their coping strategies lead to the depletion of assets or human capital. However, the PSA/PSSB is not conceived to assist households that are facing a temporary or transitory condition [21]. Nor would access to the new PASP scheme be 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.

On the basis of the data, box 3.1 presents the options for targeting.

[21] 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

Analysis of the IOF 2008/09 data (INE, 2008/09) 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 those households most in need among the eligible groups indicated for each of the programmes in the Operational Plan are given priority of access to basic social security. The data suggest that additional targeting might have different functions across programmes. Only a relatively small percentage of labour-constrained households (roughly 20 per cent) belong to the richest 40 per cent 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 the remaining 90 per cent of 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, 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 it can be concluded 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 time frame 2012–14 (table 3.4) indicate the number of direct household beneficiaries to be reached by the 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 the PASD, and particularly for the PASP [22]. For the PSSB and PASD the reform will also imply significant targeting readjustments with respect to the current way in which the two interventions operate, which will not be a painless process, particularly if it involves the termination of payments to some beneficiaries or their transfer to other programmes as revised eligibility rules are introduced.

Table 3.4. Operational Plan coverage projections, number of households, 2012–14

	2012	2013	2014
Programa Subsidio Social Básico (PSSB)	280 244	287 637	311 238
Programa de Apoio Social Directo (PASD)	37 243	46 617	58 029
Programa de Apoio às Unidades Sociais (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: MMAS, Operational Plan, 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 and UNICEF – a Rapid Assessment Protocol (RAP). This model was adapted by Oxford Policy Management (OPM) and the ILO to take into account the national context of Mozambique in three fundamental respects: (i) official demographic projections from the National Institute of Statistics (INE); (ii) household microdata; (iii) IMF macroeconomic projections. Further details of the costing methodology is provided in the Annex.

[22] It is expected that the substantial cost of expanding the coverage of the PASP will be covered by resources from partners, most likely through the creation of a common funding mechanism.

Table 3.5. Estimated total cost of the current government proposal, 2012–14 (MT millions)

	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 de Apoio Social Directo (PASD)	291	0.07	393	0.08	499	0.09
Programa de Apoio às Unidades Sociais (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, Operational Plan, 2011.

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 per cent of the total population for the PSSB and PASD; (b) household belonging to the poorest 25 per cent of the urban population and 15 per cent of the rural population for the PASP.

- Take-up rate was estimated to reach in 2014: 90 per cent for the PSSB, 35 per cent for the PASP in rural areas, 60 per cent for the PASP in urban areas, and between 50 and 80 per cent – depending on the category of beneficiaries – for the 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 per cent for the PSSB and PASP, and 28 per cent for PASD. Some efficiency gains are expected to take place for the PASD and PASP, with a reduction in administrative costs (down from 35 per cent in 2012).

- The PSSB simulation assumes that an increasing proportion of the elderly will be covered by contributory social security (pension), hence becoming not eligible for the non-contributory programme (3 per cent 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 chapter and Chapter 4. Due to data limitation it was possible to perform simulations for only some of the PASD target groups (child-headed households, households that are temporarily unable to work, households with malnourished children) but not for others (households with malnourished members on ART, 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 the targets under the Plan. The budget allocated to INAS programmes was MT 1,005 million in 2012 and 1,667 million in 2013, i.e. roughly 40 and 49 per cent, respectively, of that envisaged in the Plan. This still represents a significant annual increase in real terms (23 and 60 per cent).

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 in expanding programme coverage is to be expected on this component, compared to that indicated in the Operational Plan. In 2012, the PASP is being implemented in a pilot phase that will be funded by donors, and INAS has agreed to reschedule the above-mentioned targets.

4. Expanding the Mozambican social protection floor: Medium-term cost simulations 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 in the light of the financial viability of the policy reform and the scale of the remaining coverage gaps.

Using the simulation tool that has been developed for the elaboration of cost projections for the Operational Plan [1], this chapter explores alternative scenarios for the expansion of coverage of the Mozambican social protection floor in a ten-year time frame from 2012 and 2022. (The model allows projections up to 2030.) The exercise uses IMF fiscal space projections to relate projected costs and potentially available resources [2]. It assumes that from 2017 to 2022 fiscal space for basic social security will remain the same in relative terms to GDP. Details of the methodology can be found in the Annex.

The exercise combines two objectives:

- to contribute to the ongoing discussion about 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 through: (a) scaling up the number of beneficiaries (mainly via increased take-up amongst those eligible); and (b) increasing the transfer amounts; and
- to pave the way for future discussions of 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 (see World Bank, 2012).

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. Also, the forecasts of increases in fiscal space result from increases in domestic revenues and do not foresee any transfer of expenditures from the contributory to the non-contributory sector. The exercise introduces different solutions regarding the potential mechanisms to enhance the coverage expansion and elicits potential operational issues regarding such expansion in the short to medium term (for the PASP). It is important to note that the goal here is to determine the scope of what is financially affordable, whereas an analysis of operational viability will need a complementary exercise that is beyond the scope of the present document. Thus, the exercise mainly shows the possible extent of coverage, taking into account the potential existing fiscal space if operational systems were fully able to respond to the challenges posed by this expansion.

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

[2] The macroeconomic framework is consistent with that underlying Mozambique's Fifth Review under the Policy Support Instrument (IMF, 2013).

4.1. Estimates of fiscal space

The identification of funding in the future years is essential to determining the viability of any reform scenario leading to a more comprehensive social protection system in Mozambique.

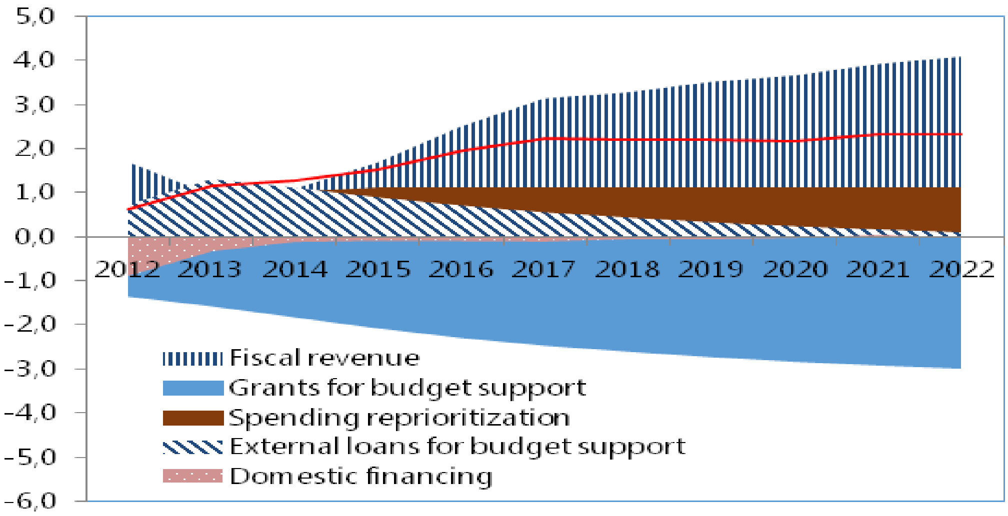
Fiscal space is commonly understood to be the «room in a government´s budget that allows it to provide resources for a desired purpose without jeopardizing the sustainability of its financial position or the stability of the economy» (Heller, 2005). The issue of fiscal space should be examined in a medium-term fiscal framework; moreover, as the Mozambican 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 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 either by enhancing the overall spending envelope and/or by reprioritizing different types of expenditures within a given 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 per cent 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.

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, with an expected increase by 0.2 per cent of GDP per annum for the decade 2012–22 (see figure 4.1). This assumes 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. As Mozambique's economy matures, grants for budget support from bilateral donors are expected to decline significantly [3]. On the other hand, budget support loans, mainly from multilateral donors such as the World Bank, 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 per cent of GDP to enhancing the overall spending envelope 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 programmes, mainly through the phasing out of the costly and ill-targeted fuel subsidy which accounted for 1.1 per cent of GDP in 2011 and an estimated 0.6 per cent in 2012. A full phasing out of this subsidy would free up resources for priority spending. In total, 2.3 per cent 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 programmes.

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

Figure 4.1. The creation of fiscal space, estimates 2012–22 (percentage of GDP)



Source: IMF estimates based on IMF, 2013.

Several factors could further enhance this outlook. The booming natural resource sector could provide additional resources in the medium term, provided that there are no infrastructure bottlenecks to its development, the fiscal regime for the sector is modernized, and windfall profits are integrated in the budget frameworks. In addition, donor support could 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 programmes. 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 of the fuel subsidy. Any slippages in this area could hamper the fiscal outlook. Tables 4.1 and 4.2 provide estimates for 2011–16 and 2011–22.

Table 4.1. The creation and use of fiscal space, estimates 2011–16 (percentage of GDP)

	2011	2012	2013	2014	2015	2016
Creation of fiscal space						
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						
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

Source: IMF estimates based on IMF, 2013.

Table 4.2. Total fiscal space available, estimates 2011–22 (percentage of GDP)

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
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 based on IMF, 2013.

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

The ENSSB has already provided some projections of programme coverage expansion, indicating a pace of growth of the budget of INAS programmes that could lead the sector to represent between 0.37 and 0.89 per cent 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 programme underlying the IMF-supported programme that gives priority to pro-poor spending, a budget allocation of around 0.8 per cent of GDP is envisaged by the Government for 2014–16 [4]. Nonetheless, any expansion of social protection programmes hinges on the authorities' ability to build additional capacity to expand coverage and strengthen systems for transfer management.

4.2. Scenarios: Policy alternatives

4.2.1. Scenario A: The current government proposal up to 2022

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

The simulation is based on the following assumptions:

- Framework approved in the Operational Plan up to 2014, except for a rescheduling of the PASP targets by two years (moving the 2014 targets up to 2016) to reflect design delays and capacity constraints [5].
- Same real transfer value, share of administrative cost and poverty targeting approach after 2014.
- Take-up rate to gradually achieve 90 per cent for all programmes from 2021 onwards (no further improvement in take-up is assumed beyond 90 per cent due to natural operational constraints).
- Year-on-year additional coverage increase proportional to the increase in the eligible population due to demographic transition.

[4] See the Memorandum of Economic and Financial Policies in IMF, 2013.

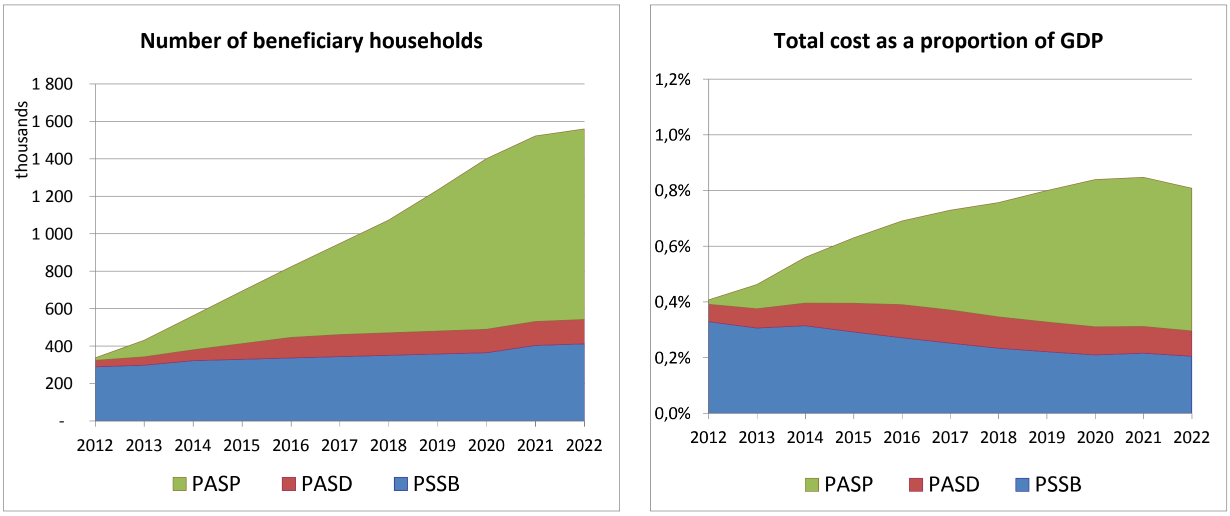
[5] Exceptions: (a) minor improvements in the estimation of PSSB and PASD beneficiary households in relation to the definition of disability and chronic illness; and (b) minor revision of inflation projections according to the latest IMF forecast.

- ■ Administrative costs of the PSSB and PASD decreasing over time to reach 20 per cent in 2022 (down from 30 and 35 per cent estimates respectively for 2012). The PASP maintains a higher level of administrative costs (30 per cent) due to the more complex nature of the intervention.

- ■ For simplicity, the simulation disregards the cost of social units and concentrates only 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 (see figure 4.2). In fact, on the basis of the current reform, this is the programme 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 households (permanently labour-constrained) which should not exceed 400,000 households (after screening out households in the highest quintile or those receiving a formal pension). As for the PASD, the estimates are more tentative as the available data do not allow an identification of some of the target groups (such as households with malnourished members on ART). It is expected that this programme will reach 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, 2012–22



Source: Authors' calculations based on IOF (INE, 2008/09).

As presented in table 4.3, this expansion scenario implies a steady increase in the budget allocation that keeps costs at a maximum of 0.85 per cent 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 per cent of GDP.

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 MT millions)	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 (INE, 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 later years, the Government will need to regularly assess the costs 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.

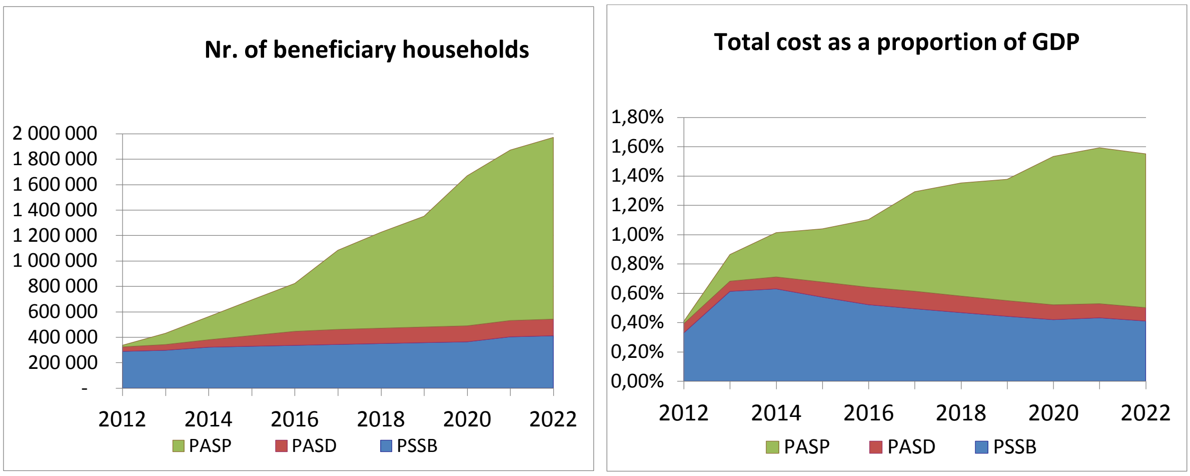
4.2.2. Scenario B: Enhanced government proposal

Scenario B estimates the fiscal space needed for a more ambitious plan of expansion. The simulation is based on the assumption of an increase (after 2012) in transfer amounts to make the PSSB and PASP more effective, as well as to expand coverage of the 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, through the introduction of the same payment mechanism as the PSSB: a base transfer (the value of the poverty line) and a variable additional transfer linked to the number of dependent members (0.25 per cent of base transfer per dependant, up to a maximum of four dependants). The new amounts are introduced in the simulation from 2013 onwards (see figure 4.3 and table 4.4).

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 per cent) 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 per cent for all programmes).

Figure 4.3. Scenario B: Number of beneficiary households and total cost as a proportion of GDP, 2012–22



Source: Authors' calculations based on IOF (INE, 2008/09).

The main difference in the number of beneficiaries is driven by the higher coverage (in terms of poverty deciles) of the PASP in urban areas. This would mean a coverage of almost two 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 per cent of GDP in 2022), but the scope of expansion of the non-contributory system to almost two million households, via an increase in the PASP, might be very ambitious, particularly given the complexities of operating a public-works programme on such a scale (see box 4.1).

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 (MT millions)	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 based on IOF (INE, 2008/09).

Box 4.1
Operational challenges in scaling up the PASP

The operational challenges associated with the implementation of the PASP on the scale proposed in both Scenarios 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 and thus limiting potential coverage gains.

In areas where the PASP does 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 the PASD and PSSB. These are the categories that will be given priority in accessing the PASP where it operates.

Providing transfers to the vulnerable is the primary objective of programmes of this kind (see for instance experiences from similar projects in Ethiopia and India o). If increased resources are 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 the PSSB or PASD.

4.2.3. Scenario 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 an exploration of the fiscal implications of possible policy changes that may be considered by the Government to improve the system. 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 very large-scale public-works scheme under the PASP in order to build a comprehensive social protection floor for non-labour constrained households.

The options considered here are aligned with some of the recommendations from the World Bank’s Mozambique Social Protection Assessment (2012). That document recommends that until 2014 the Government should concentrate its efforts on consolidating the system, maintaining the implementation of the programmes envisaged in the current Operational Plan, promoting their expansion to the set targets and investing in strengthening of the system. For a second phase, it suggests using the existing basis to articulate the social protection floor around two main pillars:

- Social Pension (Pensão Social) to focus on the poor elderly, persons with disabilities and the chronically ill. These correspond to categories already covered by the PSSB, but the new programme would cover all households with members in these situations (regardless of the fact that other members may be able to work).
- Child Benefit (Apoio às Crianças) to focus on poor households with children (particularly partially labour-constrained households such as those with a single earner, a high dependency ratio, partial or temporary incapacities, etc.) or child-headed households. Orphans and vulnerable children (OVC) should be included in this group rather than as a separate group, and priority should be given to households headed by children. 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. This component would 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 from alternative support mechanisms to the assessment of residual labour capacity. In 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 for 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 for both schemes. For example, a household with both an elderly person and children would be counted as a beneficiary of the Social Pension and would not be covered by the Child Grant. In practice the two interventions would be integrated, turning the proposal into a Family Grant, targeted to poor households with children or elderly members. Scenarios C.1 and C.2 also maintain a small version of the PASP project, conceived as an additional safety net 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.

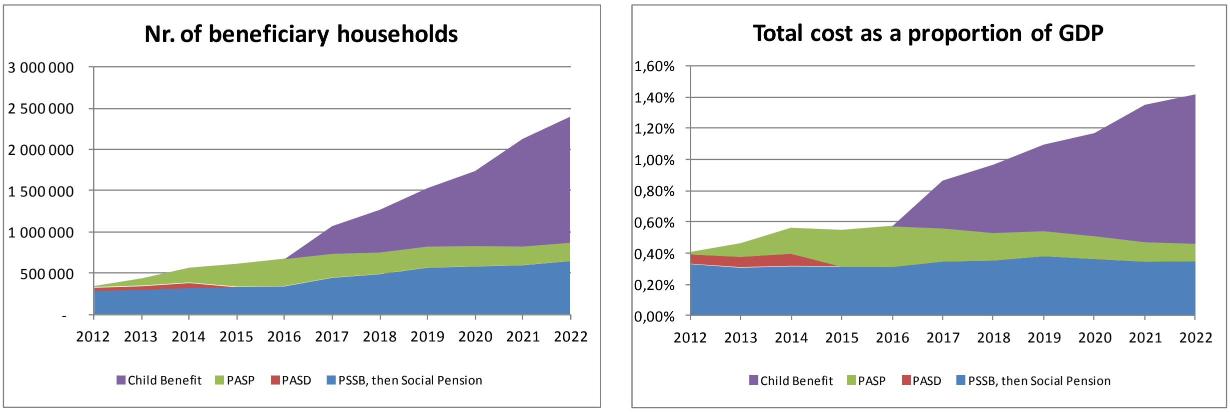
Scenario C.3 introduces a further variant to the model, organizing the benefits through transfers targeting individuals rather than households. This option would imply a move towards an individual rights-based traditional social protection approach, like for instance that used in South Africa or Cape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

Scenario C.1

Scenario C.1 is based on the hypothesis that both the Child Benefit and Social Pension will be poverty targeted, reaching households that fall in the poorest two quintiles (40 per cent) 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 35 per cent of the eligible in 2016. From 2017 onwards, when the Child Benefit and Social Pension would start to be implemented, the PASP take-up rate would fall smoothly fall 20 per cent (see figure 4.4 and table 4.5).

At this stage the same logic as in the Operational Plan is adopted to define the transfer amounts: 1/3 of the poverty line as base transfer for Child Benefit and Social Pension (with additional 0.25 per cent for every dependant up to a maximum of four dependants); and the value of the poverty line (without adjustment for dependents) for the PASP.

Figure 4.4. Scenario C.1: Number of beneficiary households and total cost as a proportion of GDP, 2012–22



Source: Authors' calculations based on IOF (INE, 2008/09).

Most of the coverage and budget increase (table 4.5) is represented by the introduction of the new Child Benefit. In the simulation this is targeted to households with children aged 0–17, with a gradual increase in take-up that can be obtained by progressively expanding the age limit from an initial target group of 0–6 years 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 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 (MT millions)	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

Note: SP = Social Pension.
Source: Authors' calculations based on IOF (INE, 2008/09).

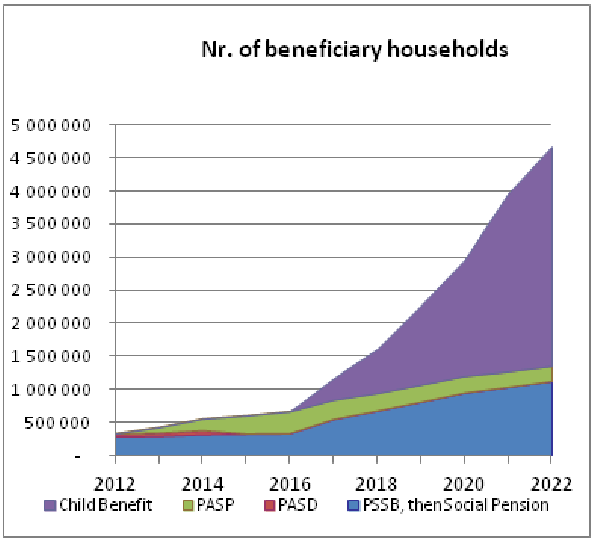
Scenario C.2

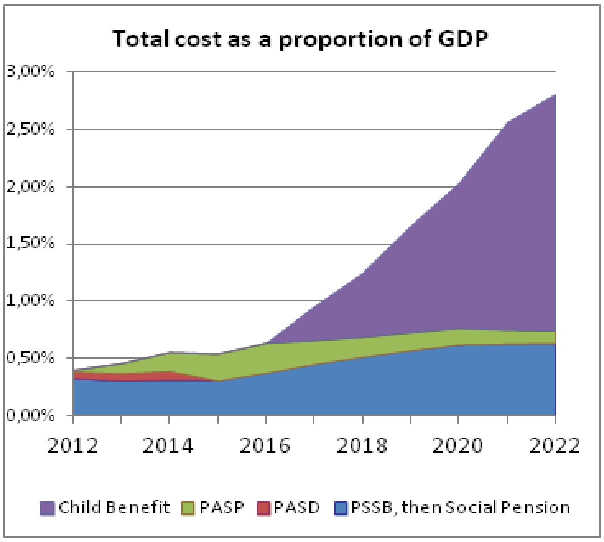
This scenario simulates almost universal coverage of some of the benefits, responding more closely to the three income security SPF guarantees. Figure 4.5 and table 4.6 are based on the following parameters:

– Coverage of households that fall in the poorest eight deciles (80 per cent) of the distribution for Child Benefit and Social Pension.

– 1/3 poverty line as base household transfer for Child Benefit and Social Pension (with additional 0.25 per cent for every dependant up to four dependants); the value of the poverty line (without adjustment for dependants) for PASP.

Figure 4.5. Scenario C.2: Number of beneficiary households and total cost as a proportion of GDP, 2012–22





Source: Authors' calculations based on IOF (INE, 2008/09).

Among the scenarios discussed here, this is the closest to provide a basic social protection floor for all, indicating what the fiscal effort would have to be to approach 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 scenario would ensure quasi-universal coverage for the vast majority of the population.

In this case, current costs would increase to around 2.8 per cent of GDP. Even if this variation represents a dramatic increase compared with the current situation, it can still be classified as affordable relative to international benchmarks (such as the 3.2 per cent of GDP spent by South Africa on its Child Grant and Social Pension).

To carry out a full analysis of the fiscal feasibility of the different scenarios, 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 to 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 (MT millions)	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 based on IOF (INE, 2008/09).

Scenario C.3: Individually based

This last scenario introduces a new approach into the model by establishing an individual right to receiving benefits, rather than channelling resources to the household as a whole. Under the current system (and all simulations presented above), each transfer indirectly benefits all the members of a household; the household transfer amount is determined according to the number of dependants; and a household can access only one type of transfer at a given time. Indeed, from an SPF perspective individuals are considered covered if their respective households are covered.

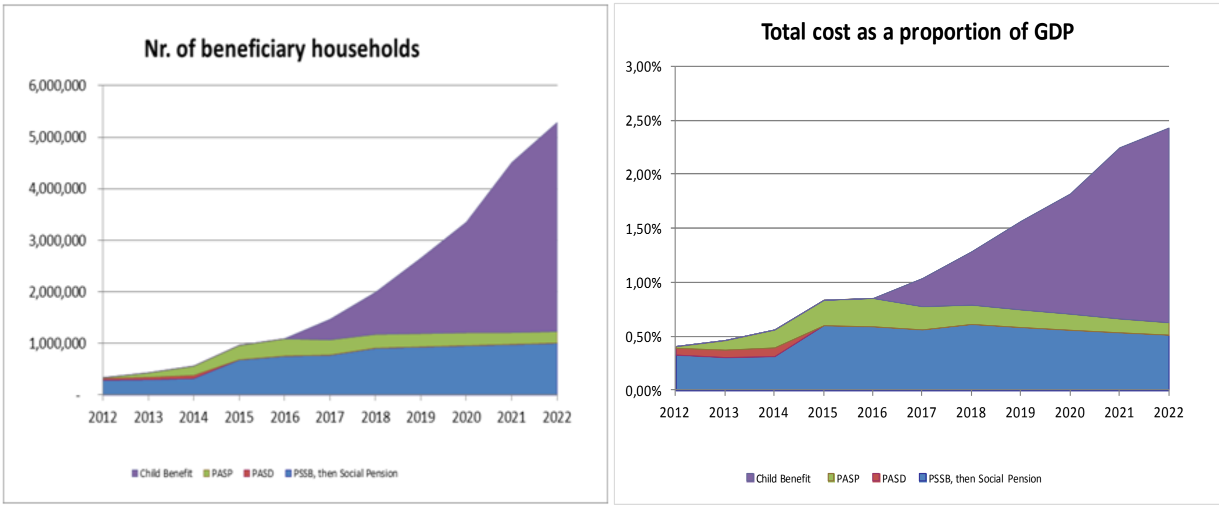
Under the individually-based approach in Scenario C.3, household members (the elderly, disabled, children, etc.) are be targeted individually by the system, and different types of benefits can be cumulated within the same household on the basis of its particular demographic composition (within the limits of a maximum number of beneficiary members per type per household). This modification would mean a significant change towards an individual rights-based approach.

Scenario C.3 is based on the assumption of higher coverage amongst individuals who will be eligible for the Social Pension compared to children covered by the Child Benefit. This is based on regional experiences with almost universal social pensions, like the one in South Africa. Figure 4.6 and table 4.7 are based on the following parameters:

– Social Pension: transfer per eligible individual (elderly, disabled, chronically ill) capped at five beneficiaries per household; 1/3 poverty line; covers households in the poorest eight deciles (80 per cent of the distribution).

– Child Benefit: transfer per eligible individual (children 0-6) capped at five children per household; 1/3 poverty line; covers households in the poorest eight deciles (80 per cent of the distribution).

Figure 4.6. Scenario C.3: Number of beneficiary households and total cost as a proportion of GDP, 2012–22



Source: Authors' calculations based on IOF (INE, 2008/09).

Costs will not be dramatically different from Scenario C.2. 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 C.3

		2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
Number of beneficiary households (in 1,000)	PSSB, then SP	289	298	322	682	755	775	909	933	957	981	1066
	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	396	813	1460	2140	3292	4051
	Total	339	433	564	965	1093	1469	1993	2656	3352	4508	5286
Total cost (MT millions)	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	2538	5457	10253	15711	25250	32421
	Total	1 686	2 088	2 731	4 393	4 833	7284	10665	15554	21111	30690	37962
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	0.31	0.59	0.97	1.31	1.86	2.10
	Total	0.41	0.46	0.56	0.83	0.85	1.09	1.38	1.72	2.02	2.52	2.73

Source: Authors' calculations based on IOF (INE, 2008/09).

5. Conclusions and recommendations

5.1. 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 to reduce household vulnerability, to foster improvements in human capital and productivity, and to contribute to poverty reduction, the expansion of social protection coverage is increasingly seen as an important element to generate 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, the more viable solution for establishing a SPF in Mozambique is to expand non-contributory social protection and not to rely on contributory subsystems 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 an 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 rewards of revenue reforms and reprioritization of expenditures, thereby creating the fiscal space required for its various priorities. In terms of financial affordability, the Government could make room for a significant expansion of basic social security programmes, 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 largest 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. To show results, these investments will require time and further substantial capital investment, if the sector is to absorb a larger share of the government budget. Better systems for implementation will be essential to increase not only the efficiency, but also the credibility and visibility of the sector.

Beyond operational issues, cultural and political orientations need to be taken into account when different options are analysed in the future. The Operational Plan has been an important step toward putting in place a comprehensive social protection strategy and articulating programme actions around clear policy objectives and overarching principles, thus going a long way toward establishing a SPF. However, further steps are required, such as:

- operationalizing the policy indications included in the Operational Plan;
- increasing the articulation with actions by other sectors; and

- elaborating the vision for a fully-fledged social protection system on a scale that integrates contributory and non-contributory pillars (perhaps 20/30 years down the line) [28], 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 ILO Convention No.102 and Recommendation No.202 as references [29].

5.2. Lessons learned for the SPF Initiative

The collaborative work carried out by the UN, IMF, World Bank and other development partners at a technical level has been critical to 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 has 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 coordinated policy advice to the authorities has 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 collaboration took place at several levels. It included discussions during the IMF Policy Support Instrument (PSI) negotiation and review missions, ongoing coordination between resident offices, joint analytical work, and repeated joint efforts such as in conferences, to sensitize technical ministry staff and policy-makers to the relevance of social protection. Reforms were also advocated at a senior level, such as the ILO/MF joint presentation to the Council of Ministers in 2011 and the advocacy for social protection by IMF and World Bank staff during the seminar on inclusive growth in the same year. The Social Protection Review prepared by the World Bank, 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 agencies (the ILO, UNICEF and WFP), the World Bank, bilateral partners such as DFiD and the Netherlands, and civil society could harmonize their positions constituted an important asset for the Government. Disagreements among donors and a lack of unity in the way support is provided frequently lead to fragmentation. It is essential that development partners join their efforts to support the Government in building a unified system. In Mozambique, as in other countries, this has not always been the case, but the recent coordination has allowed losses in efficiency and effectiveness to be contained.

Regardless of the partners' collaborative approach, the most important feature of the strides towards a national SPF in recent years has been strong government leadership. The approach all along has been to build decisions on a solid technical basis (such as the

[28] The ILO is currently assisting the Ministry of Finance and INSS in developing an actuarial study. The information produced will no doubt enhance future broad costing exercises.

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

present costing and affordability exercise and the vulnerability analysis jointly made with the World Bank), reinforced by wide consultations that have included different sensitivities and has 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 coordination among the institutions involved in different aspects of social protection, through more comprehensive costing exercises – for instance, by including the costs of benefits that go beyond the current Operational Plan covered by INAS, such as those offered by the Ministries of Health or of Education.

Annex

The costing methodology

This costing exercise was undertaken by Oxford Policy Management (OPM) and the ILO with technical advice from the IMF. The simulation model is based on a quantitative model – a Rapid Assessment Protocol (RAP) – developed by UNICEF and the ILO to provide relevant and robust advice to countries on the development of elements of a national social protection floor.

In the case of Mozambique the model was further developed by the 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 to available (micro) data. The model takes into account country-specific information on demographic developments as well as macroeconomic developments. Historical data for the various demographic and macroeconomic 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:

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

(ii) household microdata from the latest available Household Budget Survey (INE, 2008/09) that provides a representative sample of all households in Mozambique; and

(iii) historical data on inflation and national macroeconomic projections and social protection fiscal space projections from the most recent IMF country documents.

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

– Eligibility for different benefit schemes is simulated directly on the microdata 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-bodied adults).

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

– The implications of interaction between categorical targeting and poverty targeting can be fully simulated from the microdata. In particular, it was possible to: (a) simulate poverty targeting (selecting only households below a given percentile) on the basis of a wealth index constructed with assets and demographic composition variables included in 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 a calculation of 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- and household-level specifications of the eligible set), characteristics of primary and secondary beneficiaries, geographical focus and poverty, and also allows modelling of the overlap or incompatibility between 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 eligibility for the PSSB for the elderly, household eligibility is determined on the basis of containing one male older than 59 or one female older than 54, not containing any other able-bodied adult (categorical targeting) and belonging to the first four 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 time frame (2012–22). The same is true 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 per cent. Further groups are excluded on a case-by-case basis (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 this 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 table A.1.

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 (MT millions)	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 aim of flexibility to the extent that it also permits a 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 a simulation of 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.

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