

State Budget Proposal *for* Fiscal Year 2019

MOZAMBIQUE

Analysis of the Social and Economic Sectors

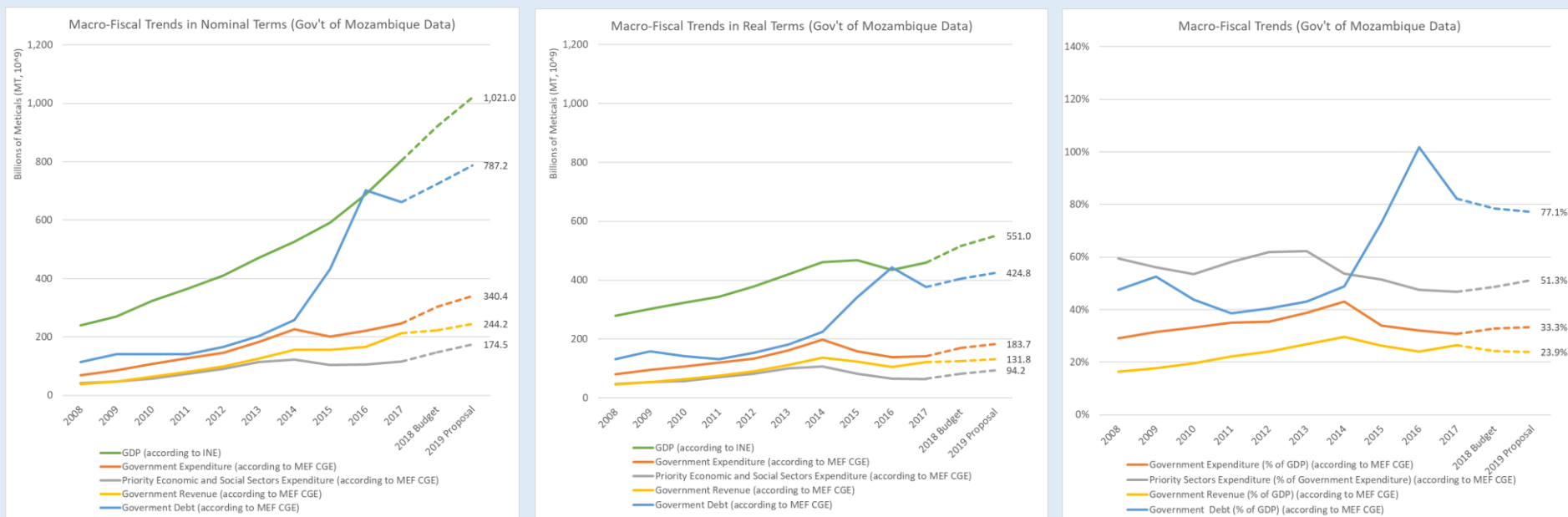
I. KEY MESSAGES

1. The envelope of resources for the 2019 State Budget is set to increase to MT 340 billion (from MT 303 billion in 2018), representing Mozambique's largest nominal budget; however, once factoring in the depreciated currency and high inflation of recent years as well as high debt servicing payments, the purchasing power of this envelope –including for priority sectors– no longer represents a historical high.
2. The share of resources dedicated to investment in Mozambique has been steadily declining, particularly since 2015, due to frozen donor support and a crowding out effect by proportional increases in financial operations and recurrent spending. While in the 2019 Budget Proposal investment has increased to a 30 percent share of total spending, it is still far below the 40 percent norm registered a decade ago.
3. Over the past decade, the share of resources dedicated to the district level has increased at the expense of resources directed to the provincial level; meanwhile central-level expenditure has remained unchanged. In the 2019 Budget Proposal, the central level will, as usual, receive the most resources (64 percent), followed by districts (19 percent), provinces (15 percent), and then municipalities (2 percent).
4. Relative to the Government's Five Year Plan (PQG), "*Priority II: Develop Human and Social Capital*" (i.e. priority economic and social sectors) is expected to receive the largest share of funding in the 2019 Budget Proposal.
5. The government has set the goal of allocating at least 60 percent of resources to the priority sectors (according to its methodology of excluding financial operations and debt servicing from the denominator); however, because financial operations and debt servicing have soared as a share of total spending, their 60 percent is no longer a reliable benchmark (e.g. priority sector allocations grew 3.5 times in nominal terms from 2009 to 2019 while the entire budget grew 4 times over the same period) . Proportional priority sector spending as a share of the *entire* budget (including financial operations and debt servicing) has dropped significantly in recent years. In the 2019 Budget Proposal, it is projected at 51 percent of the entire budget.
6. Among Priority Economic and Social Sectors, Water & Public Works, Transport & Communications, and Agriculture & Rural Development more than doubled their proposed allocations for 2019 relative to 2018 initial allocations. The Education, Health, and Social Action Sectors are also expected to receive a larger allocation than in 2018, but the increase will be smaller. The Infrastructure Sector (mainly the roads sub-sector) will be the only one experiencing a cut in allocation relative to the 2018 Budget.

II. TRENDS *in the* 2019 STATE BUDGET

The proposed value of the State Budget for 2019 is MT 340 b. From 2008 - 2014, strong GDP growth fueled growth in government revenues and, consequently, government expenditures. Since 2014, however, revenues and expenditure have slowed, declining in both real terms and as a share of GDP. The depreciated currency, high inflation, and high debt burden have diminished the purchasing power of spending through the State Budget, including on priority sectors ...

Figure #1: Macro-Fiscal Trends according to Government of Mozambique Data



➤ The 2019 Budget Proposal is worth MT 340.4 b. This represents, in nominal terms, an 12 percent increase from the 2018 State Budget and a 38 percent increase from 2017 total government expenditure. The budget proposal is expected to be implemented in the context of projected GDP growth of 4.7 percent, according to government estimates.

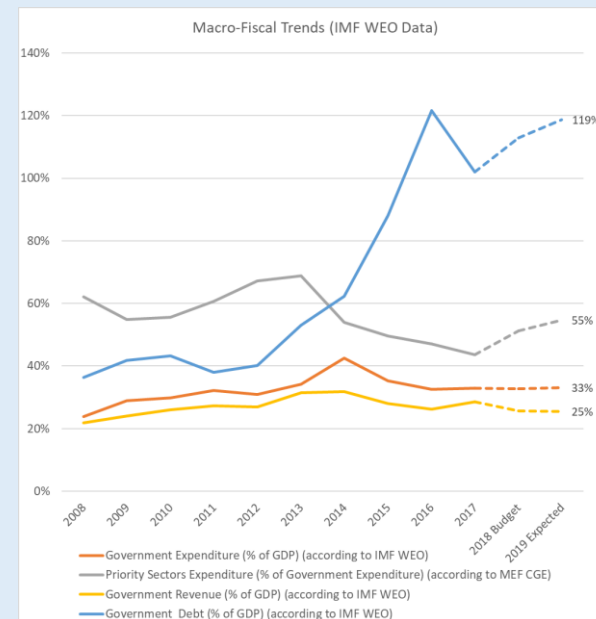
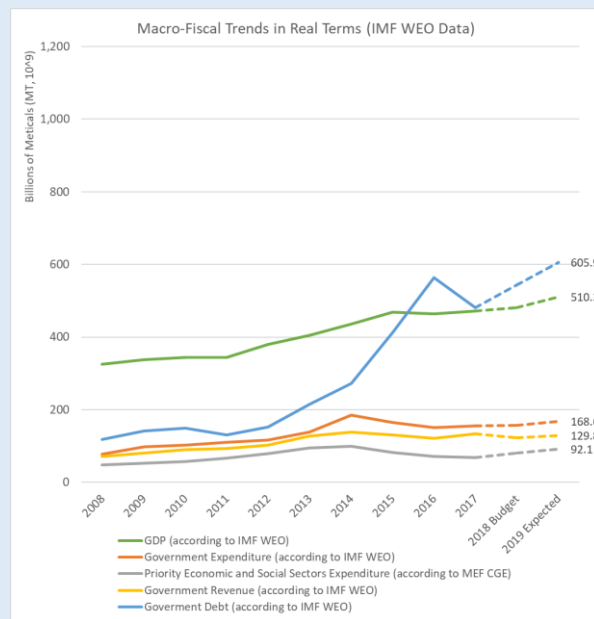
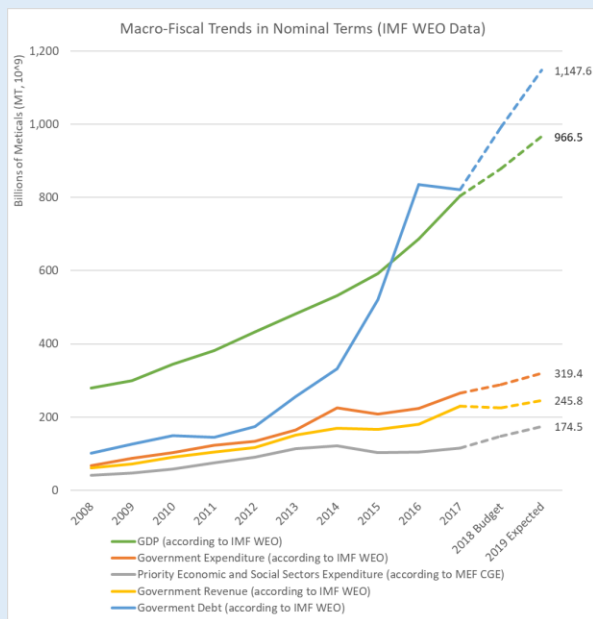
➤ According to government data, between 2008 and 2014, GDP grew, in real terms, an average 9 percent per year, priority sector expenditure grew 14 percent, government expenditure grew 16 percent, government revenue grew 20 percent, while government debt grew 10 percent. However, between 2014 and 2017, GDP, government revenue, priority sector expenditure, and government expenditure all decreased, in real terms, while government debt grew 22 percent, per year. The 2018 and 2019 budget figures project real increases in each of the categories.

➤ As a share of GDP, government debt soared to above 100 percent of GDP in 2016. Government estimates foresee the debt-to-GDP ratio decreasing through 2019; however, this is due to strong expected growth in real GDP (denominator) and not a decrease in the debt load (numerator). In 2019, the debt-to-GDP ratio is estimated at 77 percent. Since 2014, government total expenditure, priority sector expenditure, and government revenue have been decreasing as a share of GDP.

II. TRENDS *in the* 2019 STATE BUDGET

... Compared to government data, IMF data is a bit more pessimistic in terms of Mozambique's economic outlook. Projected real GDP growth is estimated at 4 percent in 2019. With a higher expected debt load and lower expected GDP, the IMF measures the debt-to-GDP ratio substantially higher than the Government's measurement; in fact, the IMF estimate of 119 percent of GDP places Mozambique among the top-ten most indebted countries in the world*...

Figure #2: Macro-Fiscal Trends according to IMF World Economic Outlook Data



➤ According to IMF data, GDP has grown, on average, 6 percent per year between 2008 and 2017, and is projected to grow again, in real terms, 4 percent in 2019.

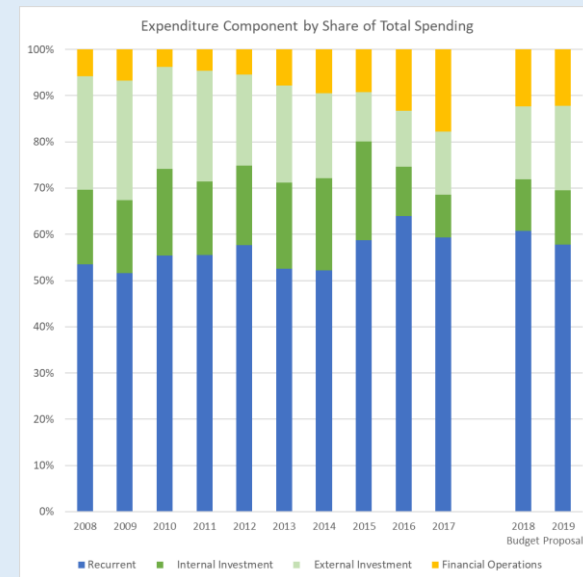
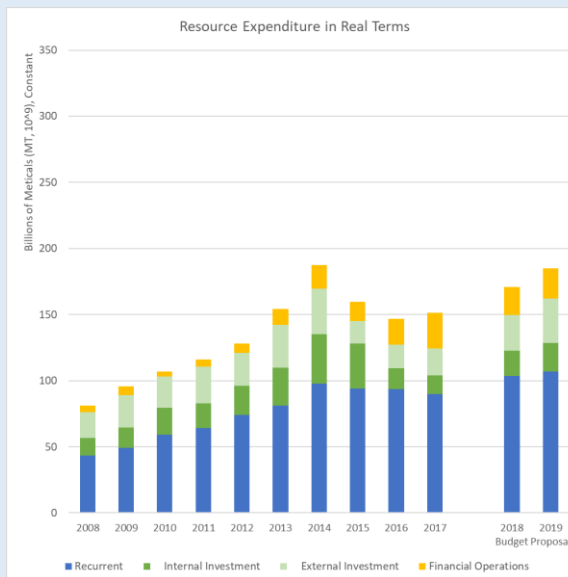
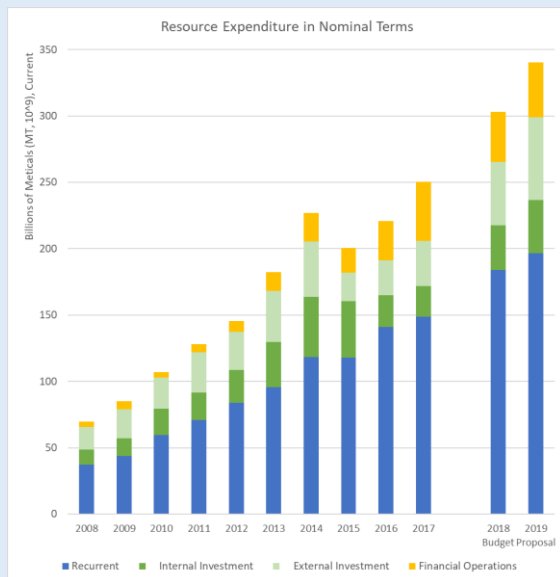
➤ The government has spent, on average, 32 percent of GDP each year on the State Budget. This is much higher than Mozambique's Low Income Country peers that spend, on average, 13 percent of GDP, and its sub-Saharan Africa Country peers that spend, on average, 15 percent of GDP**.

➤ According to IMF data, the debt-to-GDP ratio is much higher, registering an estimated 119 percent in 2019. Relative to the government estimates, this is due to lower expected GDP (denominator) and a higher expected debt load (numerator). The IMF estimates similar government revenue and government expenditure figures for 2019, relative to the Government of Mozambique's estimates.

II. TRENDS *in the* 2019 STATE BUDGET

... The share of resources dedicated to investment in Mozambique has been steadily declining. This is especially true since 2015, due to frozen donor support and a crowding out effect by proportional increases in financial operations and recurrent spending. In 2019, investment is worth 30.1 percent, an increase compared to recent years, but far below the 40.6 percent observed a decade ago ...

Figure #3: Recurrent versus Capital Expenditures



- In nominal terms, relative to the 2018 Budget, the 2019 Budget proposes a 7 percent recurrent spending increase, a 26 percent increase in investment, and 11 percent increase in debt servicing & financial operations.
- The steep nominal increase in investment compared to 2018 is due to a 31 percent increase in external investment and a 19 percent increase in internal investment. Relative to 2017 executed budget, the proposed investments increased by 79 percent, quite evenly between internal and external investments.

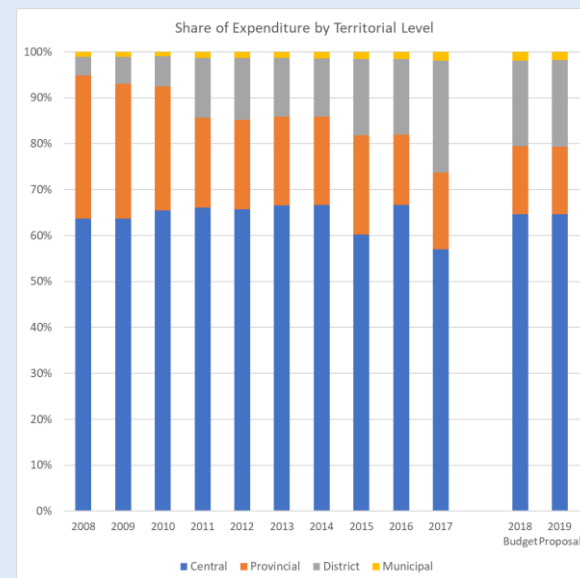
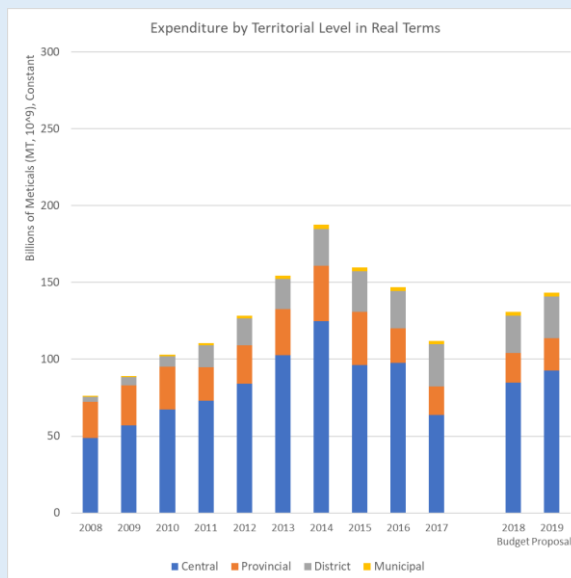
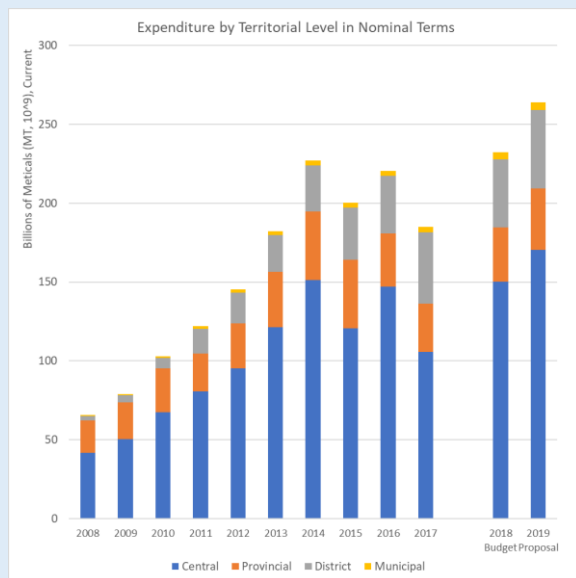
- In real terms, the proposed recurrent spending for 2019 is 3 percent larger than in 2018 Budget; the proposed investment increased by 21 percent, and financial operations increased by 7 percent.
- The nominal, real, and proportional increases in financial operations are squeezing investment resources. In 2008, financial operations were worth 5.9 percent of total expenditure, in 2017 reached the peak at 17.8 percent and, in the 2019 proposal, are worth 12.2 percent.

- Over the past decade, the proportional share of recurrent spending in the budget has increased while that of investment has decreased. Between 2008 and 2014, the average recurrent-to-investment ratio was 54 percent : 40 percent. Then, between 2015 and 2017, the ratio was 61 percent recurrent : 25 percent investment. In the 2018 Budget there was finally an improvement in investments; in fact, the ratio stood at 61 percent recurrent : 27 percent investment.
- In the 2019 Budget Proposal, the ratio is expected to be 58 percent recurrent : 30 percent investment.

II. TRENDS *in the* 2018 STATE BUDGET

... Over the past decade, fast growth in proportional expenditure at the district level and maintained expenditure at the central level have squeezed proportional spending at the provincial level. In the 2019 Budget Proposal, the central level will receive the most resources, followed by districts, provinces, and then municipalities ...

Figure #4: Expenditure by Territorial Level



➤ Between 2008 and 2014, spending at the central level increased in nominal, real, and proportional terms. In 2015, central spending decreased on all terms, but in 2016, increased in nominal, real, and proportional terms; then, increased again in 2017 expenditure and 2018 Budget. In the 2019 Budget Proposal, central spending is set to increase relative to the 2018 Budget by 14 percent in nominal terms and 9 percent in real terms. Relative to 2017 expenditure, it is set to increase 62 percent in nominal terms and 46 percent in real terms.

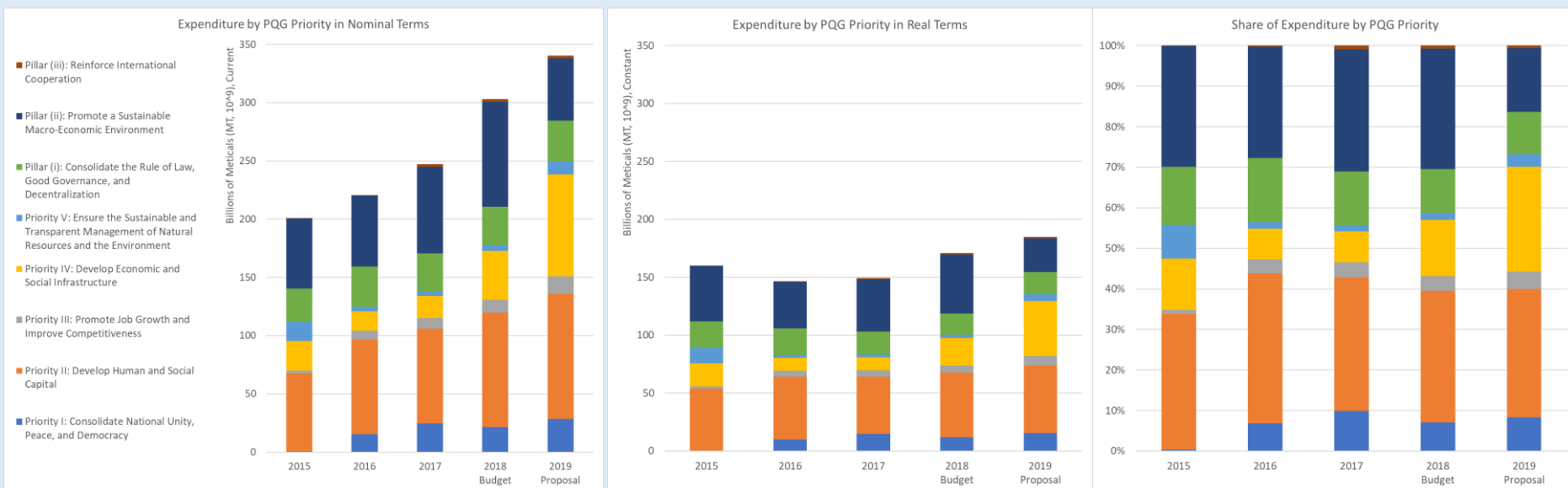
➤ The distribution of spending authority through the State Budget has changed over the years. In 2008, central level spending accounted for 63.7 percent, provincial spending was 31.2 percent, district spending was 4.1 percent, and municipal spending was 1.1 percent. In the 2019 Budget Proposal, central level spending will account for 64.6 percent; provincial spending, 14.7 percent; district spending, 18.8 percent; and municipal spending, 1.8 percent.

➤ Over the past decade, decentralization has occurred just from the provincial level to the district level. 2015 was the first year in which district spending eclipsed provincial spending. The territorial distribution of resources in the 2019 Budget Proposal remained the same as in the 2018 Budget.

II. TRENDS *in the* 2019 STATE BUDGET

... In the 2019 Budget Proposal, “PQG Priority II: Develop Human and Social Capital” (i.e. social sectors) is expected to receive the largest share of funding. Nevertheless, “PQG Priority IV: Develop Economic and Social Infrastructure” expects the biggest resource increase in 2019 compared to 2018 levels...

Figure #5: Budgeting and Expenditure by Government Five-Year Plan (PQG) Priority and Pillar

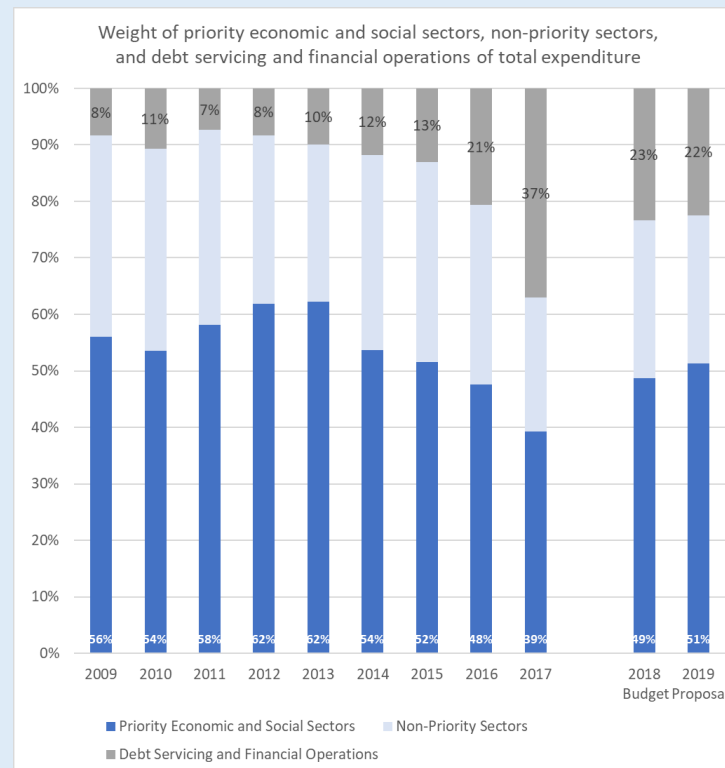
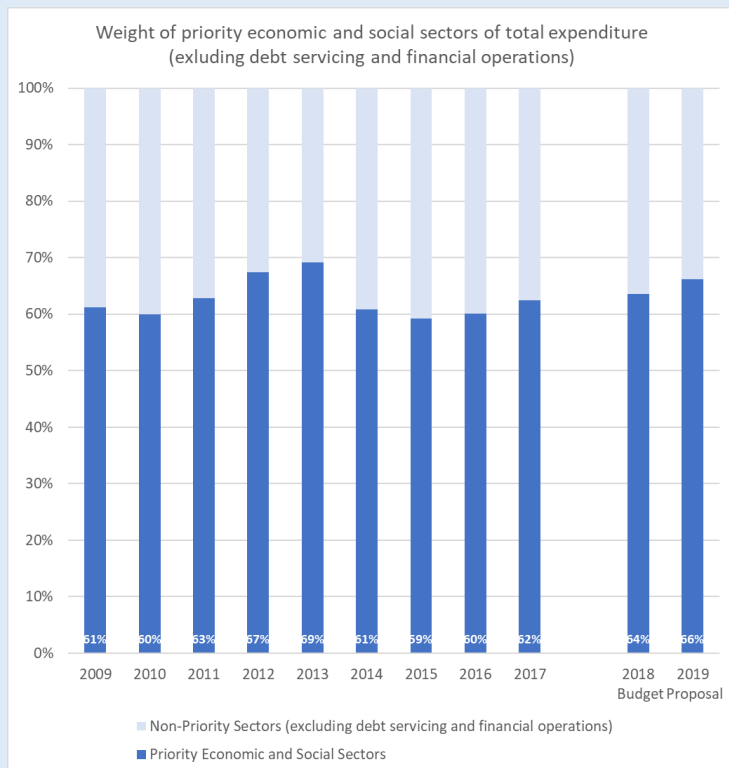


- The government’s overarching development strategy, the “Government’s Five-Year Plan (PQG 2015-2019)” has 5 strategic priorities and 3 strategic pillars. In the 2019 Budget Proposal, *Priority II: Develop Human and Social Capital*, has received the majority of funding, worth 31.6 percent of the proposed budget. This priority counts spending on social sectors including education and health.
- Since the PQG entered into force in 2015, spending on *Priority II* has grown in nominal terms, but remained the same in real and proportional terms. The other related category, *Priority IV: Develop Economic and Social Infrastructure* (i.e. schools and hospitals) has received a larger allocation in nominal, real, and proportional terms in the 2018 Budget and 2019 Budget Proposal.
- The biggest increase in nominal, real, and proportional terms in the 2019 Budget Proposal was by *Priority IV: Develop Economic and Social Infrastructure* at the expenses of *Pillar I* and *III*. In 2019, *Priority IV* is expected to account for 25.7 percent of total spending.

III. PRIORITY ECONOMIC *and* SOCIAL SECTORS

... The government has set a goal for itself of allocating at least 60 percent of resources to the priority sectors (according to its methodology of excluding financial operations and debt servicing from the denominator). however, because financial operations and debt servicing have soared as a share of total spending, their 60% is no longer a reliable benchmark. Proportional priority sector spending as a share of the *entire* budget has dropped significantly in recent years. In 2019 it is projected just above 50 percent of the *entire* budget....

Figure #6: Weight of Priority Economic and Social Sectors as a Share Total Government Expenditure



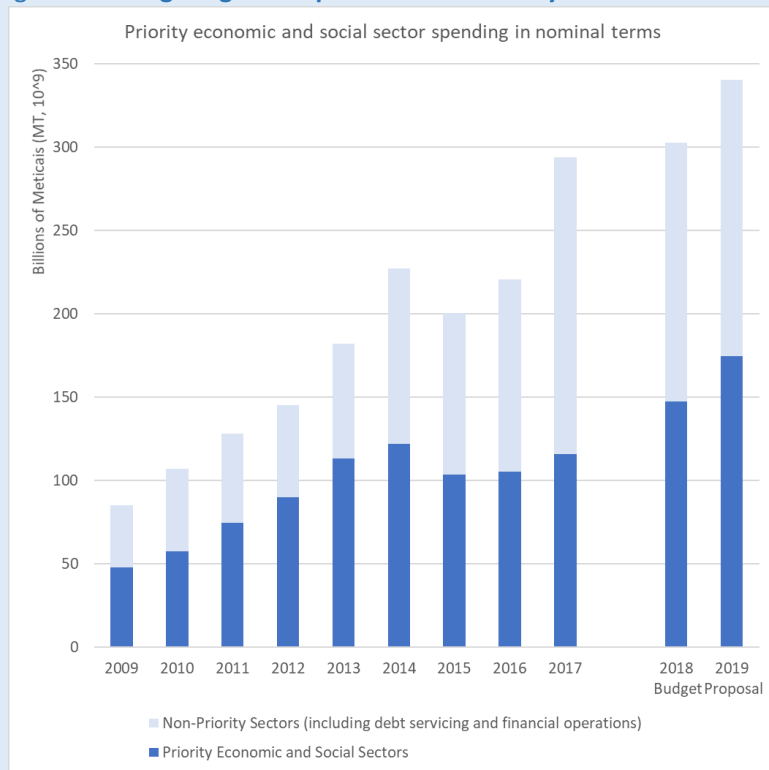
- The government calculates priority sector percentage shares out of the State Budget minus financial operations and debt servicing. An alternative methodology is to calculate the shares out of the entire value of the State Budget. Both methodologies are shown above. The increasingly large differences between the two calculations over time is due to the exponential growth in debt servicing and financial operations.

- Proportional spending on priority sectors as a share of the *entire* State Budget increased from 2010 through 2013; however, since 2014, proportional spending has decreased dramatically and reached the lowest share in 2017 at less than 40 percent. The priority sectors are budgeted at 51 percent in the 2019 Budget Proposal.

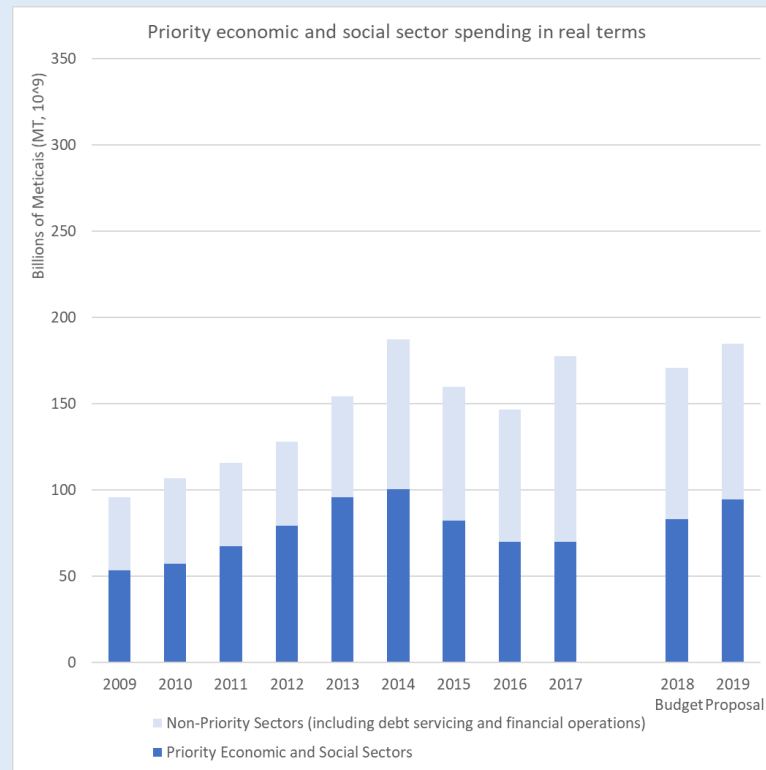
III. PRIORITY ECONOMIC *and* SOCIAL SECTORS

... Over the past decade, the purchasing power of resources dedicated to the Priority Economic and Social Sectors was eroded by high inflation and Metical depreciation. While, in nominal terms, the 2019 proposed allocation is, historically, the highest, in real terms it is still below 2014 expenditure levels...

Figure #7: Budgeting and Expenditure on Priority Economic and Social Sectors



- In the 2019 Budget Proposal, Priority Economic and Social Sectors were allocated MT 174.4 b. In nominal terms, the proposed allocation to the priority sectors is 18 percent larger than the 2018 initial allocation and 51 percent larger than 2017 expenditure. If approved by Parliament, this would be the largest-ever nominal allocation to the priority sectors.



- Inflation over 17 percent in 2016 and 15 percent in 2017, coupled with the depreciation of Metical, negatively affected the purchasing power of funds dedicated to the Social Sectors. Although inflation levels decreased to 5.9 percent in 2018 and are expected at 5.7 percent in 2019, the real terms allocation to the Social Sectors is still below that of 2014.

III. PRIORITY ECONOMIC *and* SOCIAL SECTORS

... Among Priority Economic and Social Sectors, Water & Public Works, Transport & Communications, and Agriculture & Rural Development more than doubled their proposed allocations for 2019 relative to 2018 initial allocations...

Figure #8: Priority Economic and Social Sector Budgeting and Expenditure

Millions of Meticals (MT, 10 ⁶)	2017 Expenditure	2018 Budget	2019 Proposal
Education	51,950.5	52,629.5	56,658.4
Health	19,882.1	26,606.2	27,980.3
Infrastructure	21,355.0	40,905.8	39,246.5
Roads	11,094.0	30,724.0	16,541.8
Water and Public Works	8,771.3	7,128.7	19,115.0
Mineral Resources and Energy	1,489.7	3,053.1	3,589.8
Agriculture and Rural Development	10,835.4	13,232.8	29,130.2
Judicial System	4,750.1	3,642.8	4,332.2
Transport and Communications	1,714.8	3,761.5	9,456.9
Social Action and Jobs	5,099.9	6,764.4	7,665.5

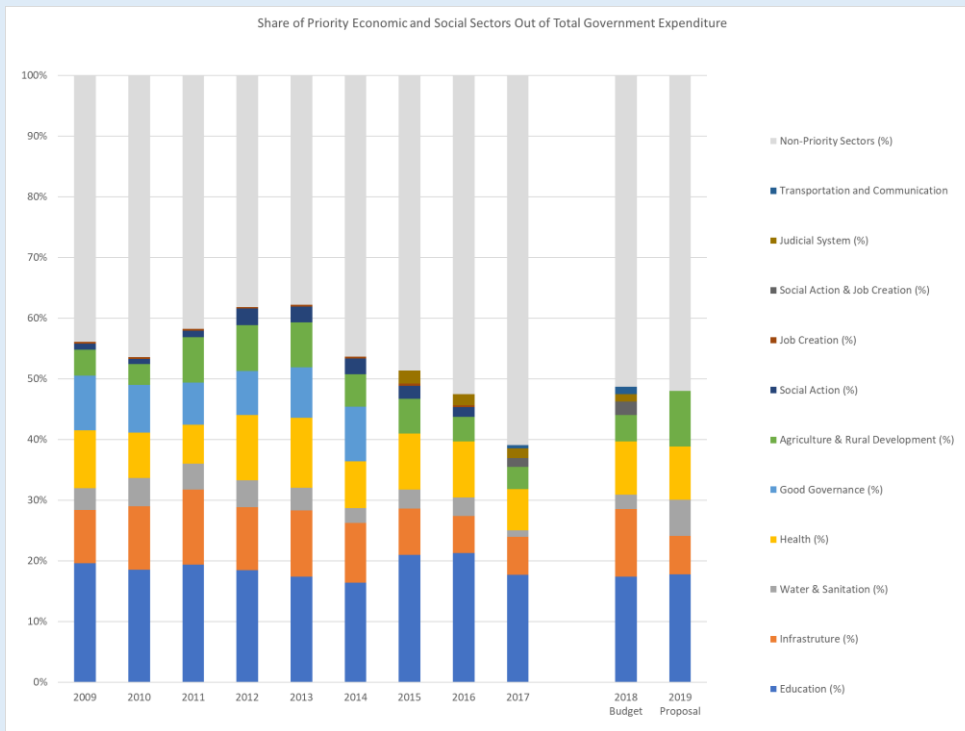
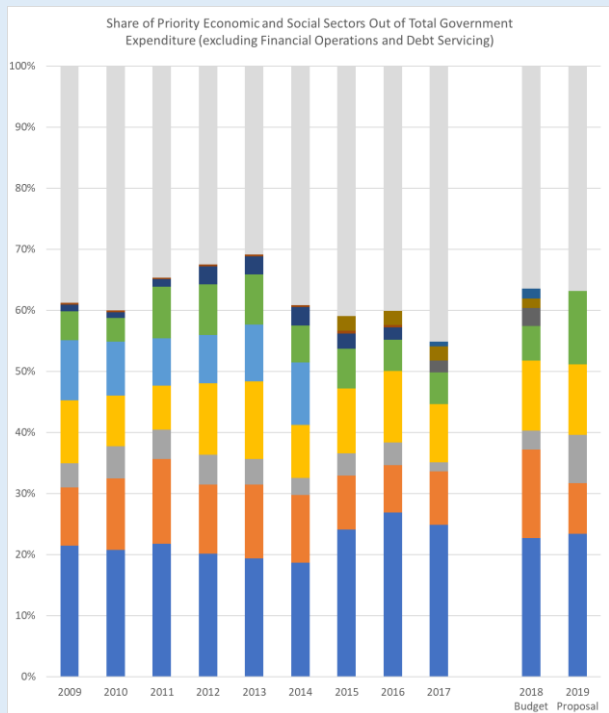
Source: CGE 2017; OE 2019 Proposta

- In nominal terms, the Water and Public Works is expected to increase 168 percent compared to 2018 Budget; the Transport & Communications is expected to increase 151 percent relative to 2018; and the Agriculture & Rural Development Sector is expected to increase 120 percent.
- On the other hand, Roads is the only sub-sector experiencing cuts. In 2019 Proposal, it is expected to receive approximately 46 percent less than in 2018 Budget.
- Relative to 2018 Budget, the Education proposed allocation increased by 8 percent; the Health sector allocation increased by 5 percent, and the Social Action & Jobs allocation increased by 13 percent.

III. PRIORITY ECONOMIC *and* SOCIAL SECTORS

... In the 2019 Proposed Budget, the weight of the Education and Health Sectors decreased, the weight of the Water & Sanitation Sector increased, while that of Social Action & Jobs remained stable...

Figure #9: Weight of Priority Economic and Social Sectors Disaggregated by Individual Sector



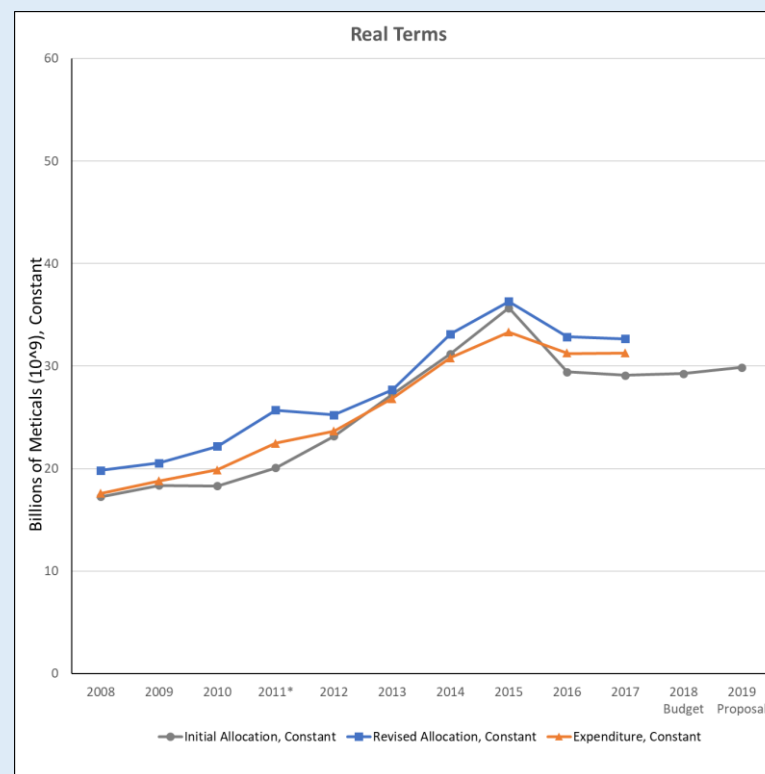
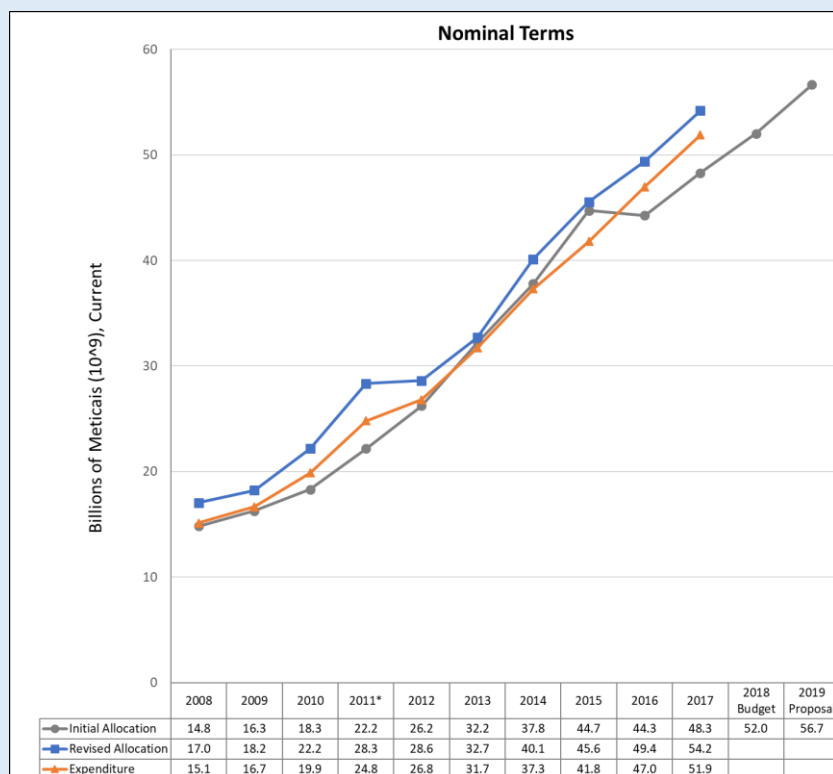
- Excluding financial operations and debt servicing from the total proposed State Budget, the Education Sector decreased from a 22.7 percent share in the 2018 Budget to a 21.5 percent share in the 2019 Budget Proposal; the Health Sector decreased from a 11.5 percent share to a 10.6 percent share; the Water & Sanitation Sector increased from a 3.1 percent share to a 7.2 percent share; and the Social Action & Jobs allocation remained stable at 2.9 percent share.

- Including financial operations and debt servicing, the Education Sector decreased from a 17.4 percent share in the 2018 Budget to a 16.6 percent share in the 2019 Budget Proposal; the Health Sector decreased from an 8.8 percent share to an 8.2 percent share; the Water & Sanitation Sector increased from a 2.4 percent share to a 5.6 percent share; and the Social Action & Jobs Sector remained at a 2.3 percent share.

IV. EDUCATION SECTOR

In the 2019 Budget Proposal, the Education Sector was allocated MT 56.7 b, representing the largest-ever nominal allocation to the sector. In real terms, the 2019 proposed allocation to Education is on par with the 2016, 2017, and 2018 initial allocations.

Figure #10: Budgeting and Expenditure in the Education Sector



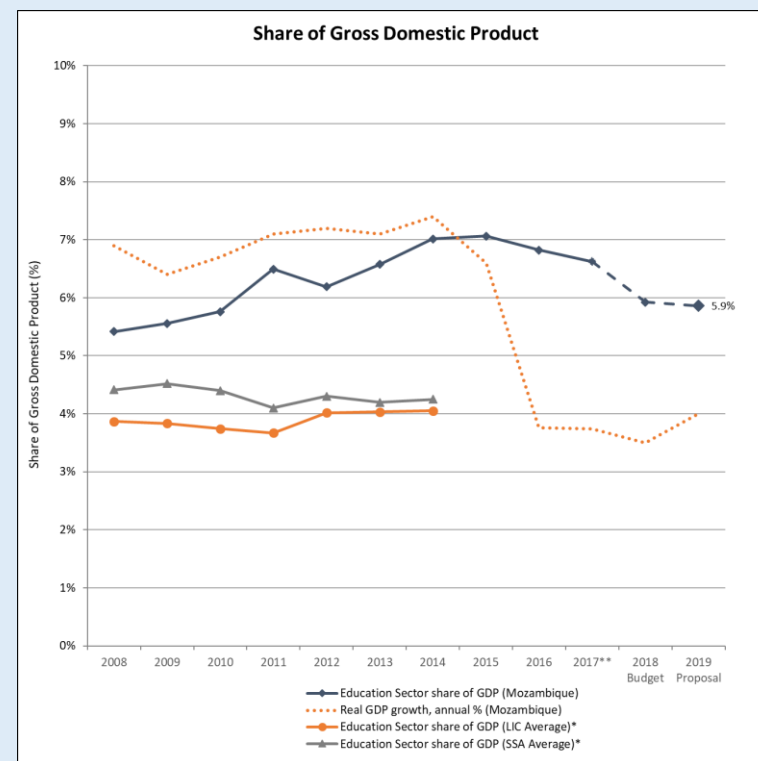
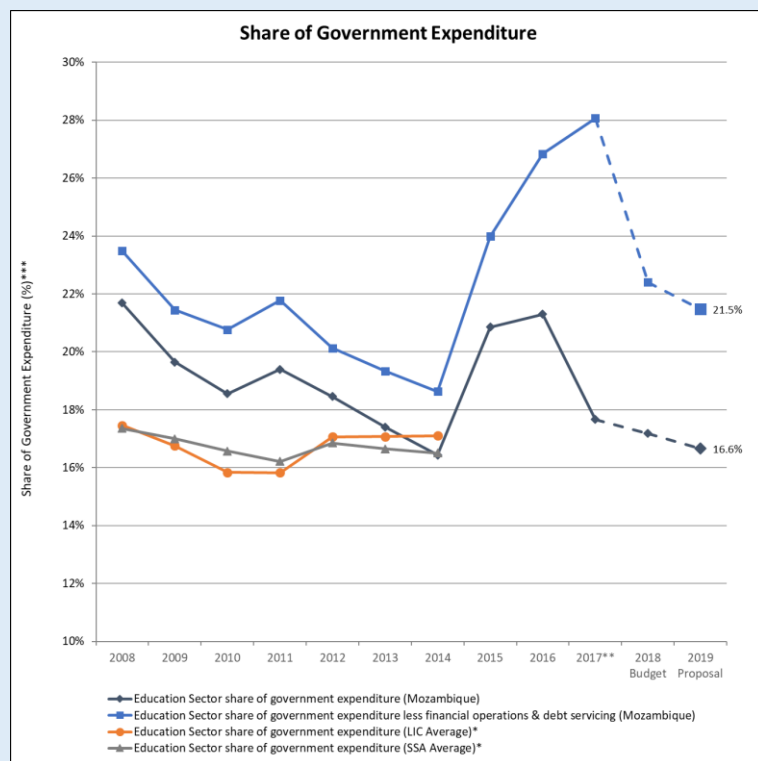
- The Education Sector was allocated MT 56.7 b in the 2018 Budget Proposal. This represents a 9 percent increase in nominal terms, and a 2 percent increase in real terms relative to the 2018 sector's budget. Compared to 2017 sector's expenditure, the 2019 proposed allocation represents a 17 percent increase in nominal terms and a 3 percent increase in real terms.

- Between 2008 and 2017, expenditure has varied from the initial allocation by no more than an average MT 0.8 b or approximately 3 percent of the sector's total value. Hence, judging from the sector's past execution rates (and unlike other social sectors), the Education Sector expenditure will likely be close to the 2019 proposal, assuming adoption by Parliament.

IV. EDUCATION SECTOR

... The proposed allocation to the Education Sector is worth 16.6 percent of the 2019 Budget Proposal. Excluding financial operations and debt servicing, education represents 21.5 percent. As a share of Mozambique's GDP, the proposed sector's budget represents 5.9 percent, which is on par with the 2018 budgeted share ...

Figure #11: Weight of Education Sector as a share of Government Expenditure and GDP

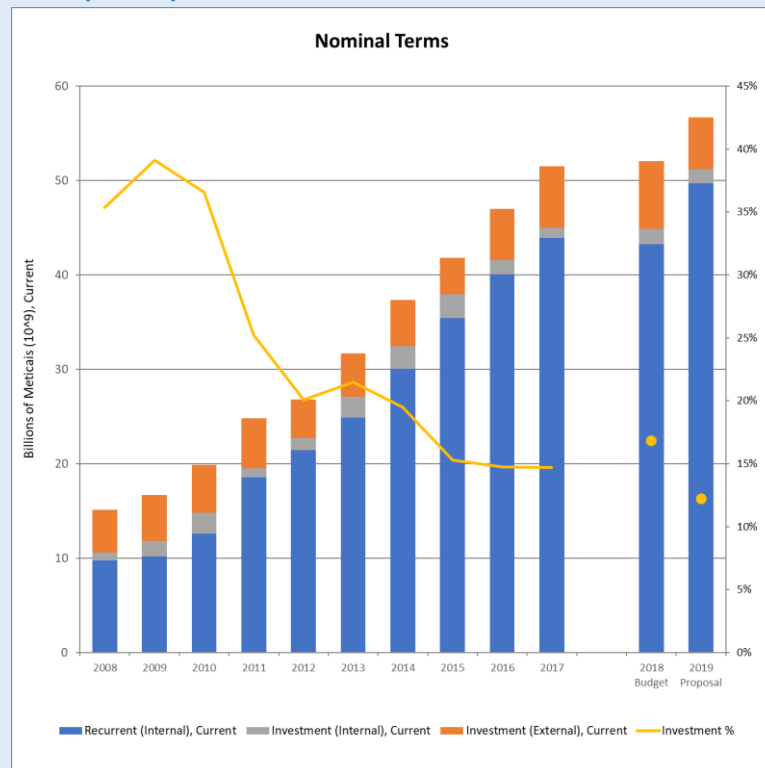
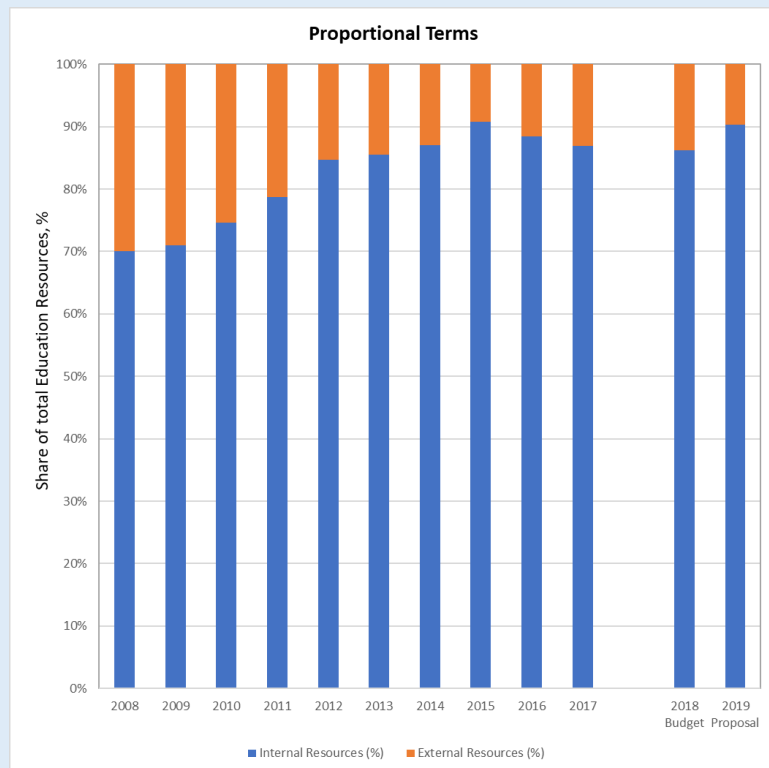


- The 2019 proposed allocation to Education is worth 21.5 percent of the proposed budget, less financial operations and debt servicing. As a share of the entire proposed budget, the proposed allocation represents 16.6 percent. The large difference is due to the large increase in debt service payments.
- The 21.5 percent share (calculated using the Government's methodology) is less than the 22.4 percent share represented by the sector's 2018 initial allocation and significantly less than the 28 percent share registered by the sector's 2017 expenditure. The 16.6 percent share (standard for benchmarking), including financial operations and debt servicing, is on par with shares of peer low income and sub-Saharan Africa countries.
- The 2019 proposed allocation to the Education Sector is worth 5.9 percent of forecasted GDP; this is the same share as in 2018 Budget.

IV. EDUCATION SECTOR

...In the 2019 Budget Proposal, the Education Sector is to receive a higher share of domestically-sourced resources, yet a lower share of overall investment compared to previous years...

Figure #12: Internal versus External Education Resources and Recurrent versus Capital Expenditure in the Education Sector



- The 2019 proposed allocation to the Education Sector relies on 90 percent internal resources and 10 percent external resources. Internal resources dedicated to the sector in the Budget Proposal are 4 percentage points higher than in 2018 Budget, and 3 percentage points more than in documented 2017 expenditure.
- Investment spending according to the 2019 Proposal is worth 12 percent of the total education budget. This is considerably less than the 17 percent share in the 2018 Budget. The investment-to-Recurrent ratio is much smaller than that of a decade ago. In fact, in 2008, investment was worth 35 percent and recurrent was worth 65 percent of total sector resources.
- Over the past decade, donors have been increasingly responsible for the Education Sector's investments. This is confirmed in the 2019 Budget Proposal, as 83 percent of investment is financed through external resources, while just 7 percent through internal resources.

IV. EDUCATION SECTOR

The Program for the procurement and distribution of school desks is the largest proposed investment for 2019, and it is fully internally-funded. The second largest investment program is “Livro Escolar”, which is instead funded by donors.

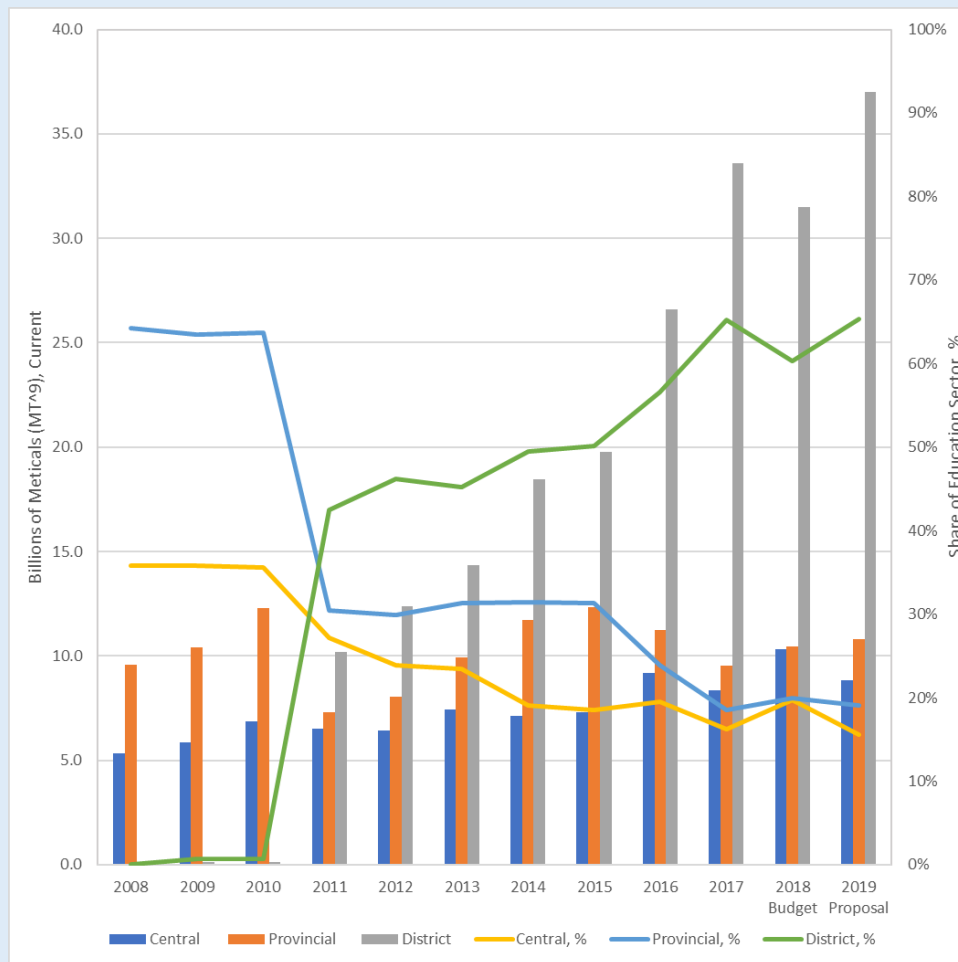
Figure #13: Education Sector Investments

Largest Investments in the Education Sector			
MT ^ 6,			
Activity	Internal Investment	External Investment	Investment Total
Procurement and distribution of school desks	1,304	-	1,304
Distribution of school books	3	1,118	1,121
Construction of classrooms	270	444	715
Pre-school program - pilot project	-	253	253
Rehabilitation of technical schools	-	179	179

IV. EDUCATION SECTOR

... The Mozambican Education Sector is highly decentralized. District-level institutions, followed by Provincial, receive the largest share of the sector's resources according to the 2019 Budget Proposal ...

Figure #14: Geographical Allocations



- The Mozambican Education Sector is highly decentralized. Since 2011, the sector has showed the greatest level of expenditure at the district level, followed by provincial and central levels. The allocation to the district level has grown rapidly over the years, and has reached the highest share of total sector resources in 2017 expenditure and in 2019 proposed budget.
- In 2019 Budget Proposal, 65 percent of the sector's resources are allocated to district-level institutions (i.e. SDEJTs), 19 percent to the provincial level and 16 percent to the central level. The non-central level allocations proposed for 2019 are larger than in 2018 Budget, but are worth the same share as in 2017 expenditure.

IV. EDUCATION SECTOR

In the 2019 Economic and Social Plan (PES) Proposal, the Government has set ambitious goals for the Education Sector. In particular, targets set for planned enrollment rate, the number of new teacher hires and number of textbooks printed and distributed are considerably higher than in 2018 PES.

Figure #15: PES Proposal Indicators and Targets for Education Sector in 2018

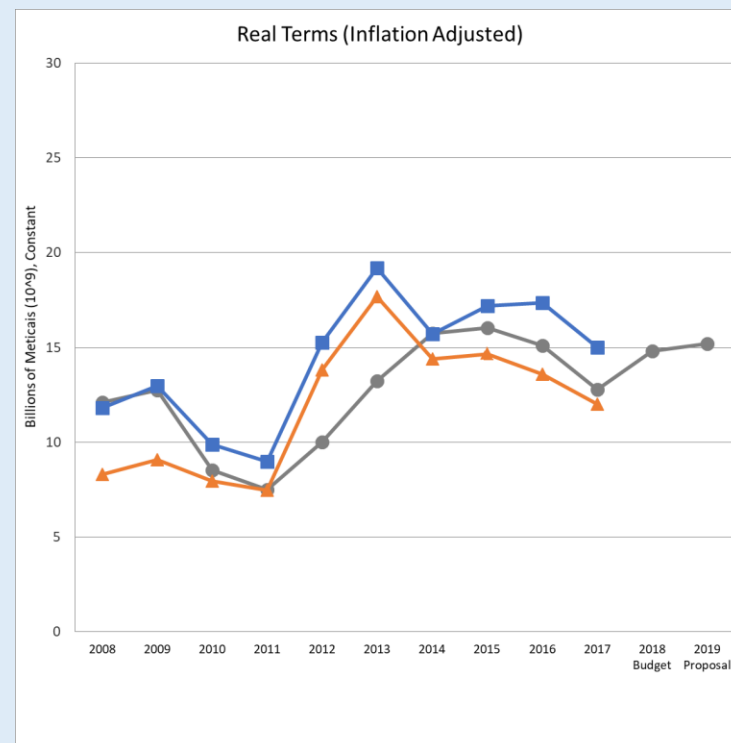
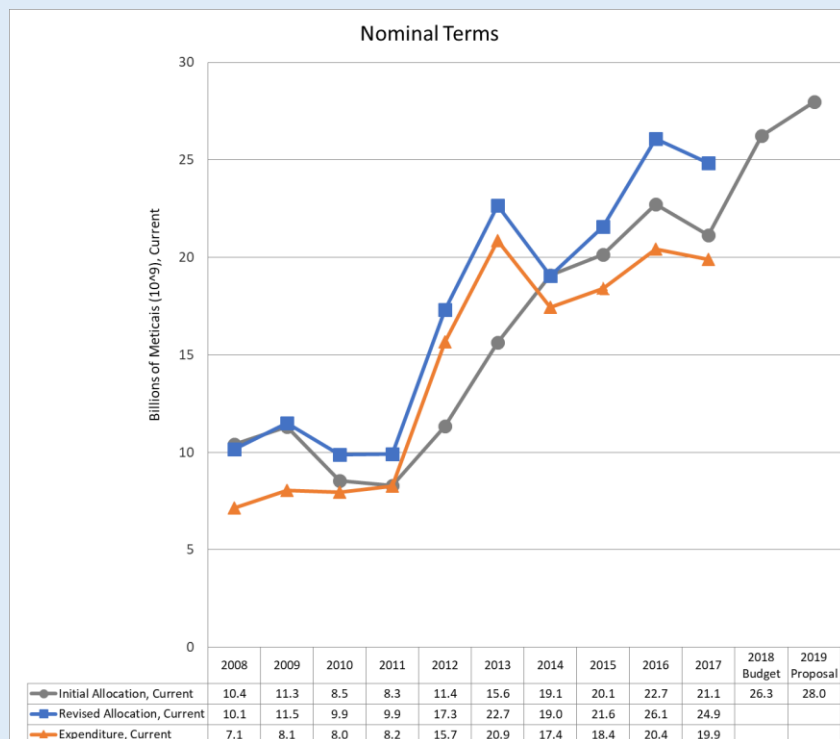
	Indicators	2019 PQG Goal	2018 Budget	2019 Proposal
Education	Enrollment rate	86.0%	85.0%	93.5%
	Number of professors contracted	42,500	5,213	6,413
	Number of school desks distributed	700,000	475,608	224,775
	Number of classrooms built	4,500	1,422	991
	Student-Teacher Ratio in Primary School First Grade	57	59	63
	Number of student textbooks printed and distributed	n/a	13,783,700	14,345,000

Source: *Plano Economico e Social de 2019*, Page 30, Quadro 19 - *Desenvolvimento do Capital Humano e Social*.

V. HEALTH SECTOR

... the Health Sector was allocated MT 28 b in the 2019 Budget Proposal, or the sector's largest nominal allocation. In real terms, the 2019 proposed allocation is on par with expenditure levels registered in 2014 and 2015.

Figure #16: Budgeting and Expenditure in the Health Sector



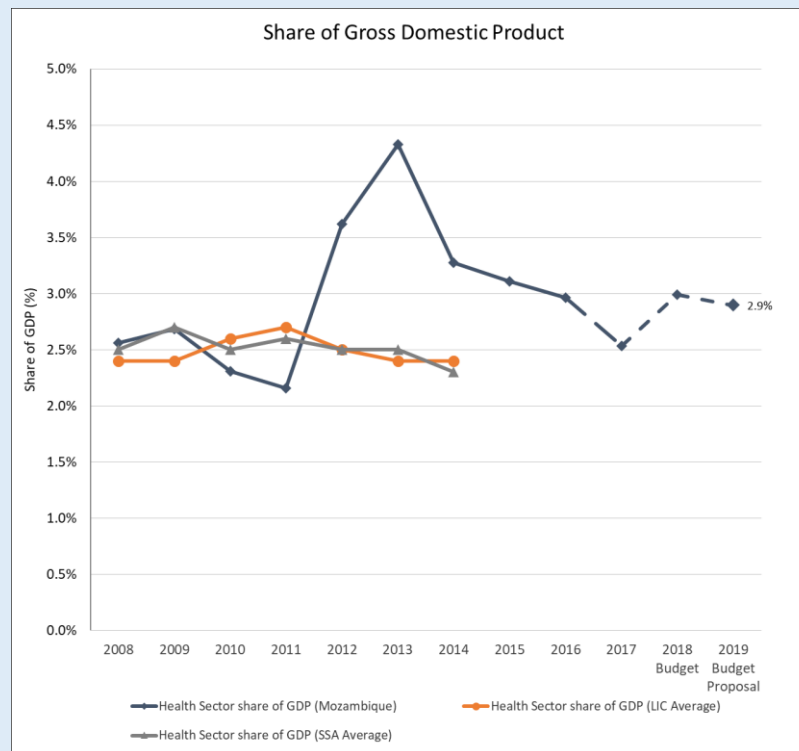
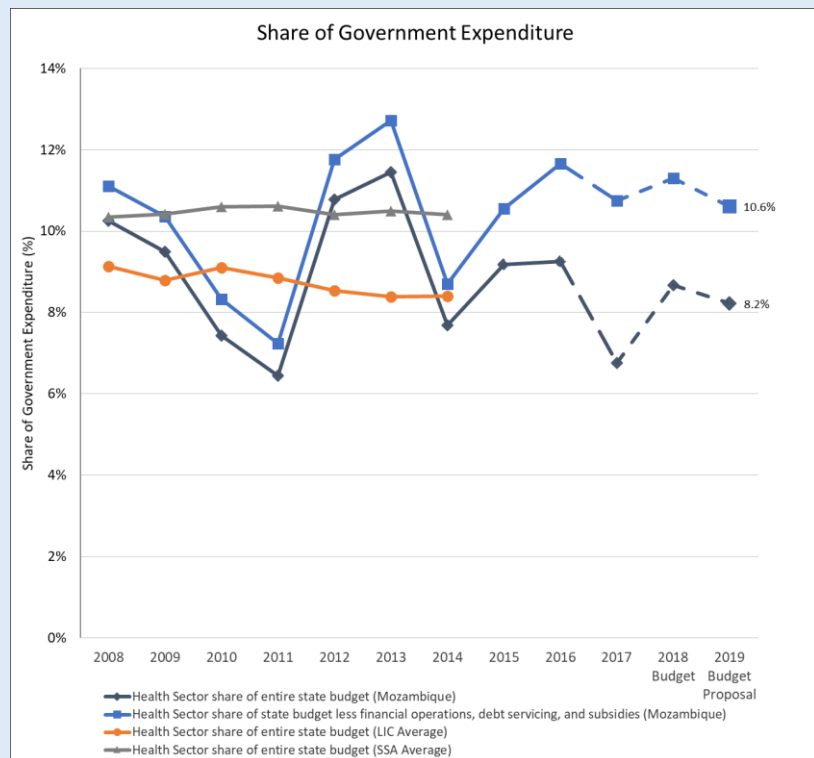
- The Health Sector was allocated MT 28 b in the 2019 Budget Proposal, which represents – in nominal terms- a 6.6 percent increase relative to 2018 initial allocation and a 32 percent increase relative to 2017 health expenditure. In real terms, the 2019 proposed allocation to the sector represents just a 3 percent increase compared to 2018 Budget but a 19 percent increase relative to 2017 sector expenditure.

- The initial allocation to the Health Sector is not a very reliable indicator for what the actual expenditure will be. In fact, over the past decade, sector's budgeting and expenditure has been erratic. In addition, it must be noted that the sector has been relying on large off-budget resources that are not easily tracked. For this reason, the off-budget resources are not documented in these figures.

V. HEALTH SECTOR

... Health represents 8.2 percent of the 2018 Budget Proposal. Excluding financial operations and debt servicing, health represents 10.6 percent. As a share of the expected GDP for 2019, the Health sector proposed allocation is worth approximately 2.9 percent.

Figure #17: Weight of Health Sector as a share of Government Expenditure and GDP

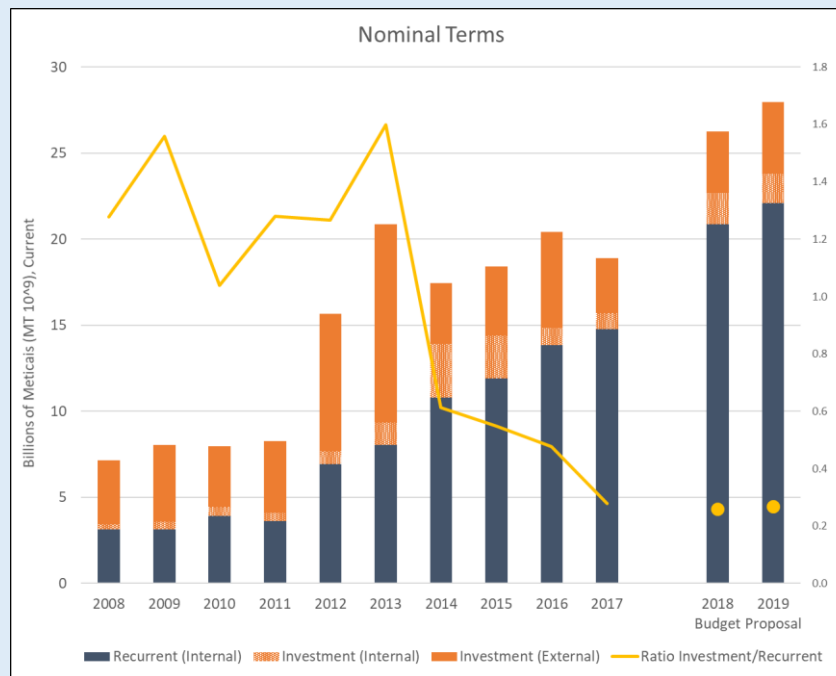
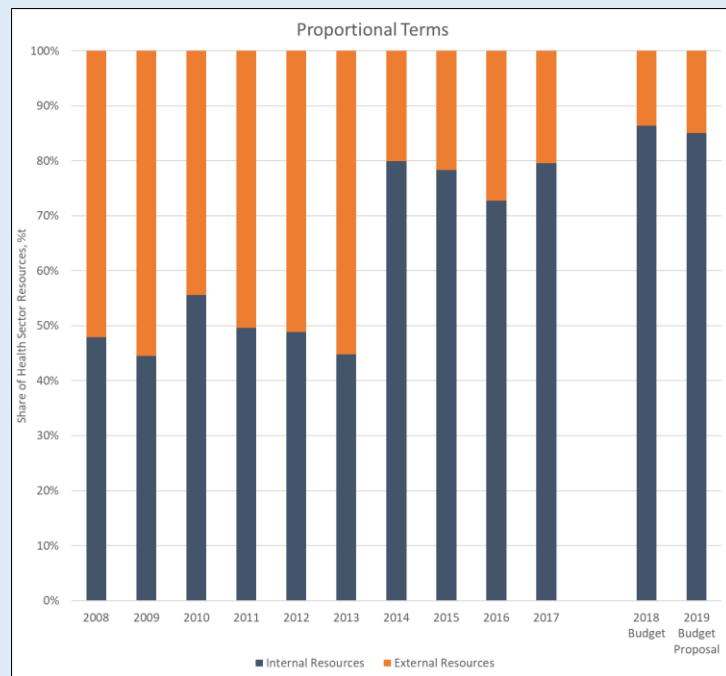


- The Health Sector is worth 10.6 percent of the 2019 proposed budget less financial operations and debt servicing, and 8.2 percent of the *entire* budget. The 10.6 percent share (recognized by government) is slightly smaller than that in 2018 Budget, but on par with that of 2017 sector's expenditure.
- The 8.2 percent share (standard for benchmarking) is on par with the average share of the Health Sector in low income countries, but is lower than the average share of the Health Sector in sub-Saharan Africa countries.
- The proposed allocation to health in 2019 represents 2.9 percent of the expected GDP, which is on par with the share registered in 2018. Relative to other countries, the Health budget share of GDP of Mozambique is slightly above the average of low income and sub-Saharan Africa peer countries.

V. HEALTH SECTOR

... According to the 2019 budget proposal, the Government is going to fund 85 percent of the Health Sector budget. Nevertheless, investments will mostly be externally-funded...

Figure #18: Internal versus External Health Resources and Recurrent versus Capital Expenditure in the Health Sector



➤ The 2019 proposed Health Sector proposed budget relies on 85 percent internal resources and 15 percent external resources. When compared with the 2008 ratio (i.e. 48 percent internal to 52 percent external) it is evident that the Government has steadily increased its contribution to the Health Sector. Nevertheless, it is important to note that this ratio of internal to external financing does not consider off-budget resources which are, naturally, additional external contributions to the sector not tracked in budget and expenditure documents.

➤ Health recurrent spending in the 2019 Proposed Budget is worth 79 percent of total sector's resources, while investment spending represents 21 percent. The proposed share occupied by recurrent spending in 2019 is the same as in 2018 Budget and in 2017 expenditure. Yet it is important to mention that just a decade ago, recurrent spending occupied a 44 percent share and investment spending a 56 percent share of on-budget expenditure.

➤ In 2019, donors are expected to be responsible for 71 percent of health investments. This represents an increase in relative to 2018 Budget when external funding was worth 66 percent of total investments. However, a decade ago donors were responsible for 93 percent investments.

V. HEALTH SECTOR

The Program to strengthen primary healthcare in Mozambique is the largest investment program planned for 2019. The largest investments in health proposed in 2019 Budget Proposal are mostly externally-funded.

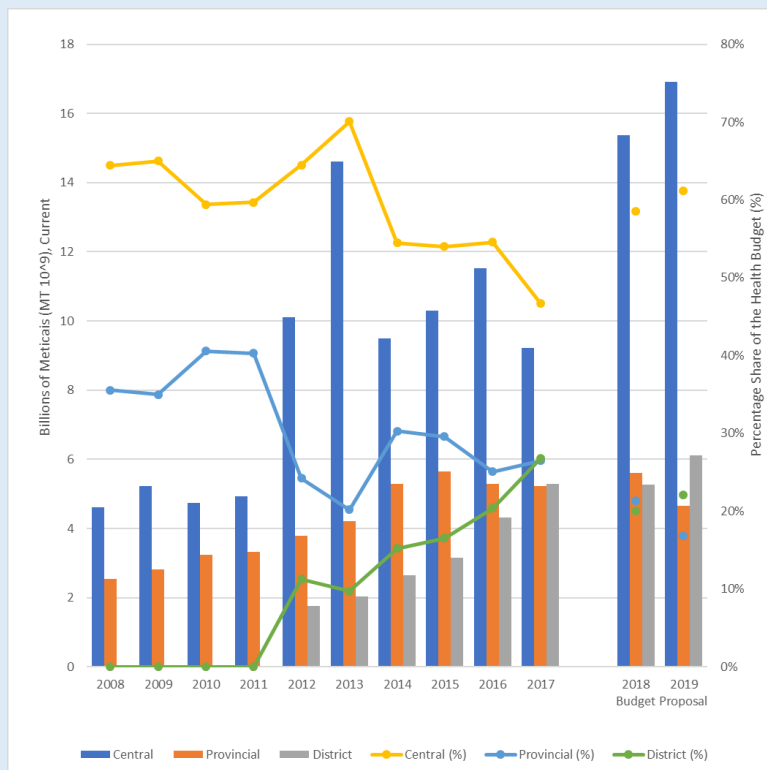
Figure #19: Health Sector Investments

Largest Investments in the Health Sector			MT ^3
Activity	Internal Investment	External Investment	Investment Total
Programa de fortalecimento da saude primaria de Mocambique	-	1,433,500	1,433,500
Programa de apoio ao combate da tuberculose	-	1,076,500	1,076,500
Desenvolvimento das infraestruturas de nivel II	740,293	-	740,293
Plataforma para otimizacao de cadeia de frio	-	262,019	262,019
Fortalecimento dos cuidados da saude primarios e servicos de saude - PROSAUDE III	-	215,070	215,070

V. HEALTH SECTOR

...The Health Sector spending is very centralized. According to the 2019 Budget Proposal, central-level Health institutions are receiving MT 16.9 b or 61 percent of the sector's allocations. This share is on par with the average sector's allocation to the central level in the last decade.

Figure #20: Health Sector budget by territorial level



- Health sector spending is highly centralized. Since 2008, the largest majority of health resources have been executed at the central level. Over the last decade, central-level institutions have received an average 59 percent of the Health Sector spending; provincial-level institutions an average 29 percent and district-level institutions an average 12 percent. However, in more recent years, the allocations to the district level have generally been much larger than that to the provincial level.
- The 2019 Budget Proposal allocates MT 16.9 b or 61 percent of the Health resources to central-level institutions (i.e. MISAU, central hospitals, CMAM, etc.), MT 4.6 b or 17 percent to the provincial level (i.e. DPS, provincial Hospitals, etc.), and MT 6.1 b or 22 percent to the district level (i.e. SDSMAS).

V. HEALTH SECTOR

... According to the Economic and Social Plan (PES) Proposal, child-relevant health targets set for 2019 are aligned with the 2019 PQG goals (see below).

Figure #21: PES Proposal Indicators and Targets for the Health Sector in 2019

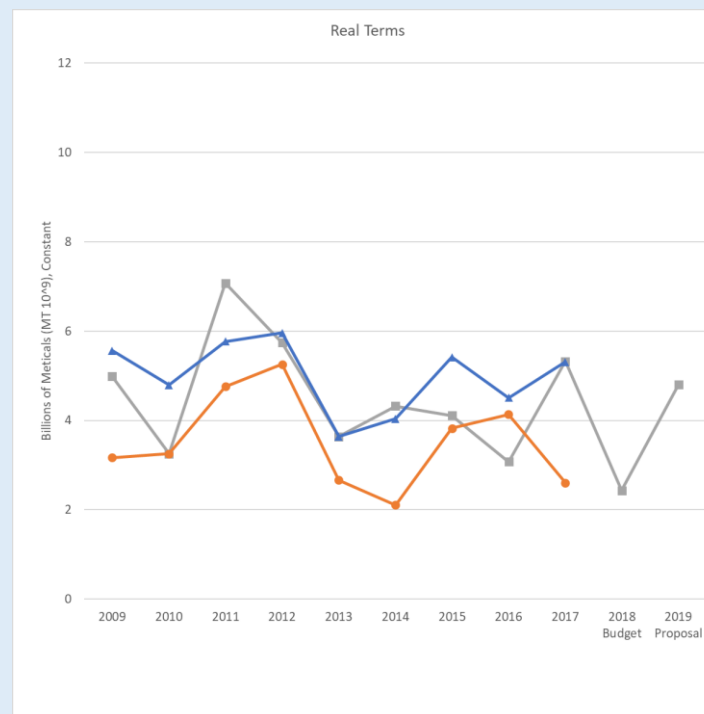
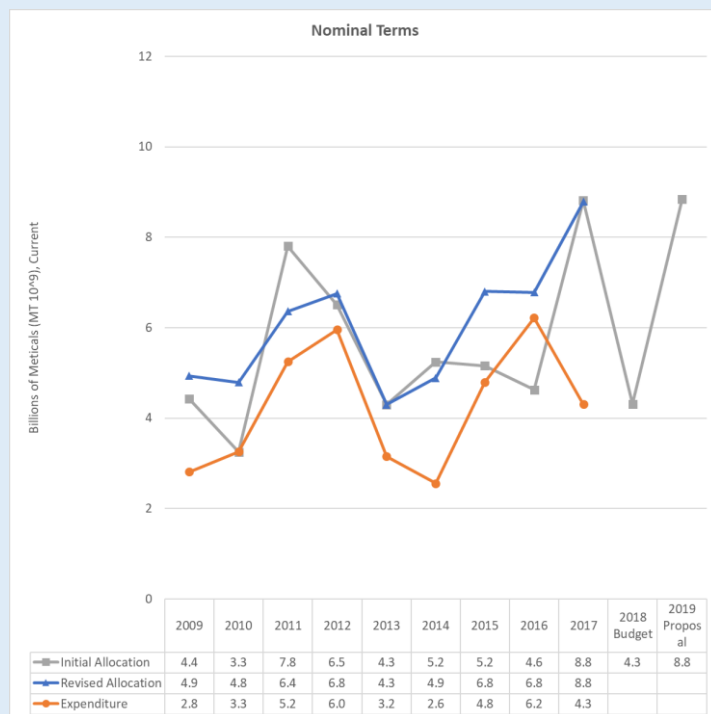
	Indicators	2019 PQG Goal	2018 Budget	2019 Proposal
Health	Full vaccination coverage for babies under 12 months	94%	92%	94%
	Share of institutionalized births (i.e. births in authorized medical facility)	75%	80%	84%
	Number of Health Sector workers	n/a	2,019	2,126
	Children beneficiaries of ARV treatment	n/a	98,717	104,229

Source: *Plano Economico e Social de 2019*, Page 30, Quadro 19 - *Desenvolvimento do Capital Humano e Social*.

VI. WASH SECTOR

... The Water & Sanitation Sector was allocated MT 8.8 b in the 2019 Budget Proposal. This is approximately double the size of the sector's budget for 2018, both in nominal and real terms. The large increase in the sector's allocations relative to last year are mostly due to the steep increase in internal investments dedicated to AIAS and FIPAG.

Figure #22: Budgeting and Expenditure in the Water & Sanitation Sector



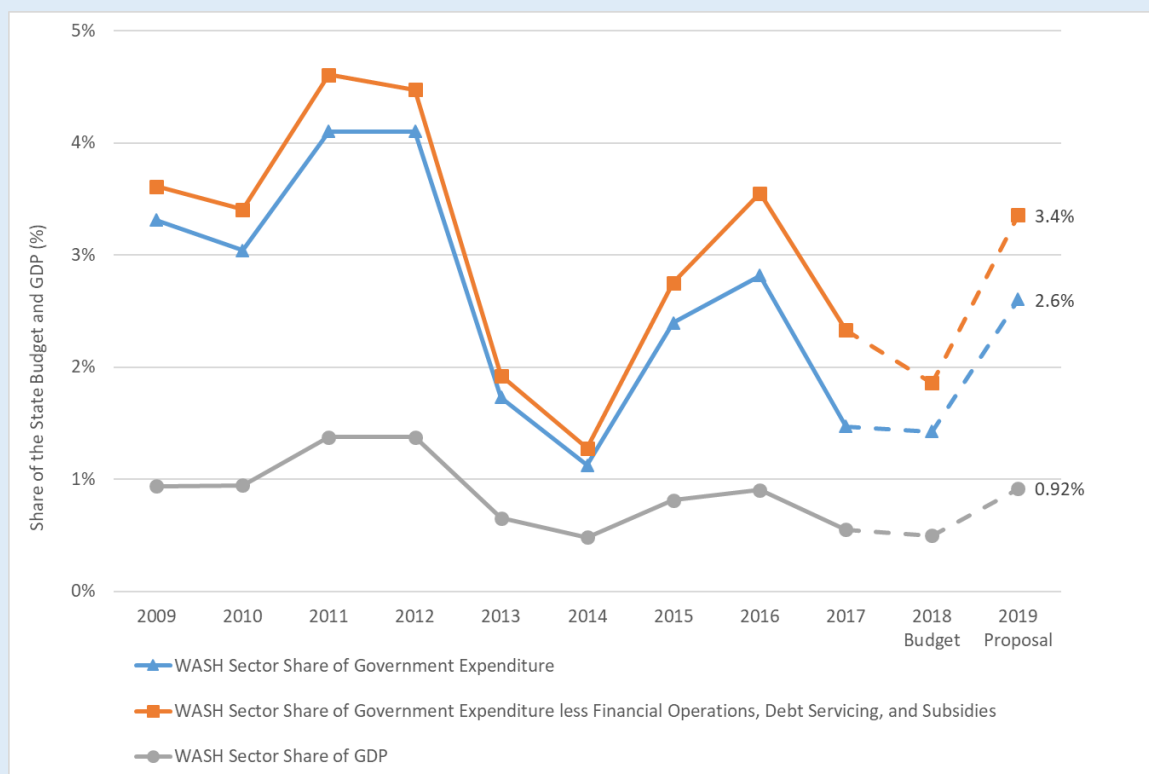
- The Water and Sanitation Sector was allocated MT 8.8 b in the 2019 Budget Proposal. The proposed allocation is worth approximately double the size of last year's sector budget. Nevertheless, 2019 allocation is on par with 2017 initial and revised allocations but about double the size of 2017 expenditure.
- In 2019 Proposed Budget, the Government steeply increased its contributions to the FIPAG and AIAS programs, which resulted in a much larger sector's allocation relative to last year.

- It must be noted that WASH initial allocations, revised allocations and expenditure have been so erratic that it is difficult to predict whether 2019 proposed budget will be fully executed, if approved by Parliament. In fact, while the sector showed a positive performance on certain years (e.g. 2012, 2015 and 2016), it suffered from very low execution rate in others (e.g. 2014 and 2017).

VI. WASH SECTOR

... the WASH sector represents 2.6 percent of the entire 2019 Proposed Budget. Less financial operations and debt servicing, the proposed allocation to WASH is worth 3.4 percent. As a share of the expected GDP for 2019, the proposed allocation is slightly less than one percent.

Figure #23: Weight of Water & Sanitation Sector as a share of Government Expenditure and GDP

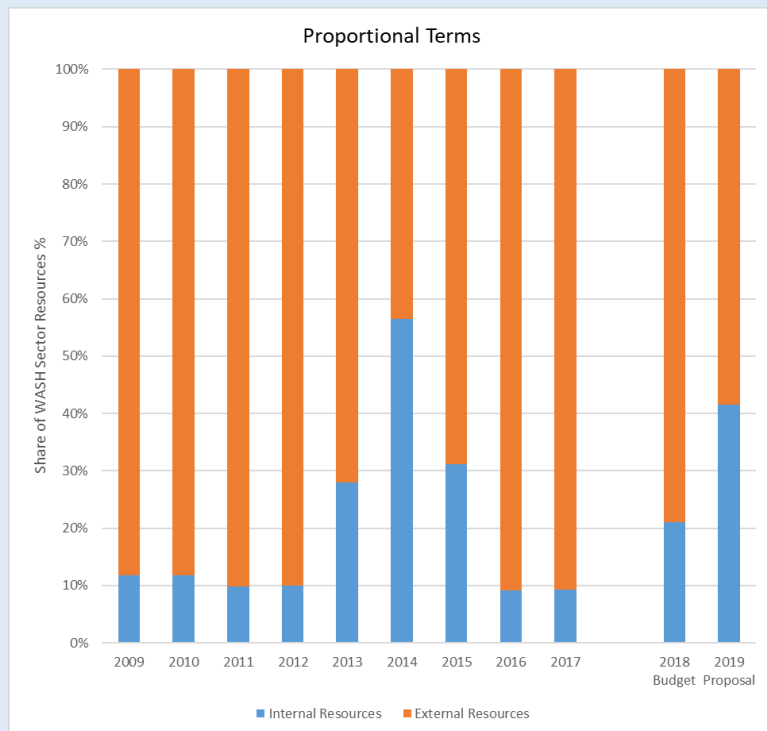


- The WASH sector is worth 3.4 percent of the proposed budget less financial operations and debt servicing, and 2.6 of the entire budget. The two respective shares are expected to bring the WASH sector back to its 2015 levels after three years of decreasing resources to the sector.
- The proposed allocation to the WASH sector is equal to 0.92 percent of the expected GDP for 2019. This is a large increase in share relative to the past two years, and it is higher than the 0.85 average of the past decade.
- In addition, if confirmed by Parliament and fully executed, the WASH spending share of GDP of Mozambique would be higher than that of Sub-Saharan Africa (i.e. 0.52). Nevertheless, as previously mentioned, WASH sector initial allocations are not a reliable indication of execution given that the sector has faced difficulties in executing its budgets.
- Under the N'Gor Declaration, Mozambique has committed to achieve a minimum of 0.5 percent of GDP dedicated specifically to Sanitation & Hygiene. While Mozambique has shown increased efforts towards the water sub-sector, the country is still lagging behind in investing in the sanitation and hygiene sub-sectors. In fact, Mozambique has been dedicating less than 0.1 percent of the GDP to sanitation and hygiene interventions.

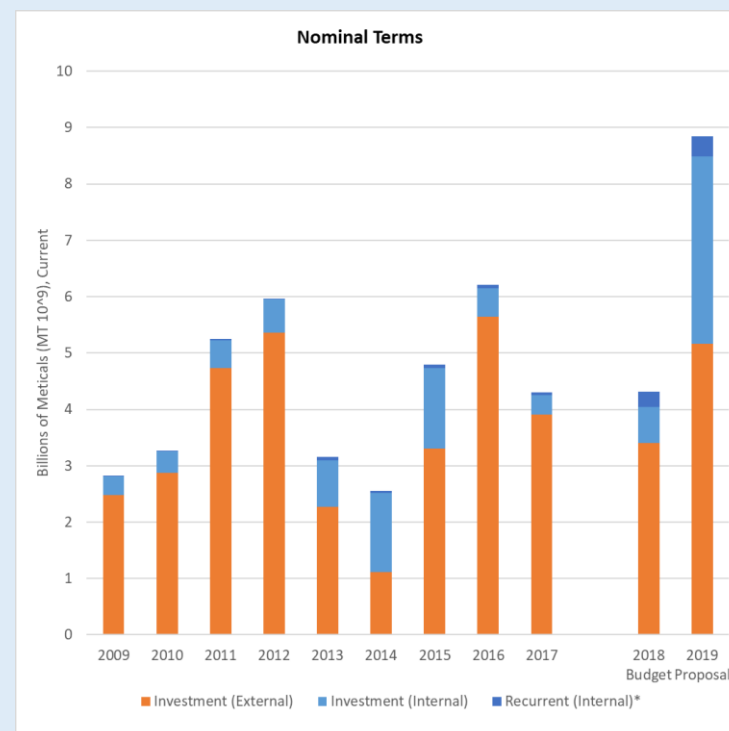
VI. WASH SECTOR

... According to the 2019 Budget Proposal, proposed internal resources dedicated to WASH account for 42 percent versus 21 percent in 2018 Budget and 10 percent in 2017 expenditure. In fact, the Government has planned to largely increase its internal contribution to the WASH sector, mostly to investment programs.

Figure #24: Internal versus External Water & Sanitation Resources and Recurrent versus Capital Expenditure in the Water & Sanitation Sector



- According to the 2019 Budget Proposal, 58 percent of the WASH sector resources are externally funded and 42 percent are internally funded. The share of internal resources dedicated to WASH in 2019 has steeply increased relative to the 21 percent share in 2018 Budget. This sharp increase in Government's contributions to the sector is due to proposed large internal investments dedicated to the AIAS and FIPAG programs which had historically been funded almost exclusively by donors. If confirmed by Parliament, such large internal investments would be a very positive sign of greater Government commitment to meeting relevant WASH goals.



- In 2019 proposed WASH budget, MT 8.4 b will be dedicated to investments, while just MT 0.4 b to recurrent spending. Hence, investments will be worth 96 percent of the sector, which is an increase by 5 percentage points relative to 2018 budget.
- Of the investment spending, donors and creditors will be responsible for approximately 61 percent compared to 84 percent in 2018. Again, this is because of the relatively large increase in internal investments to the sector.

VI. WASH SECTOR

...The largest investment to the WASH sector in the 2019 Budget Proposal is the National Program for the Development of the Water Sector (second phase) managed by FIPAG. The second and the third largest investments planned for 2019 are fully internally-funded.

Figure #25: WASH Sector Investments

Largest Investments in the WASH Sector (Internal + External)			MT ^ 3
Activity	Internal Investment	External Investment	Investment Total
Programa nacional de desenvolvimento do sector de aguas II	540,795	2,349,958	2,890,754
Reabilitacao e expansao dos sistemas de abastecimento de agua urbana	836,319		836,319
Programa nacional de abastecimento de agua e saneamento rural - PRONASAR	806,290	-	806,290
Cidade e mudancas climaticas	-	803,819	803,819

VI. WASH SECTOR

... According to the 2019 Economic and Social Plan (PES) Proposal, work on certain indicators have been prioritized for 2019 (see below).

Figure #26: PES Proposal Indicators and Targets for WASH Sector in 2019

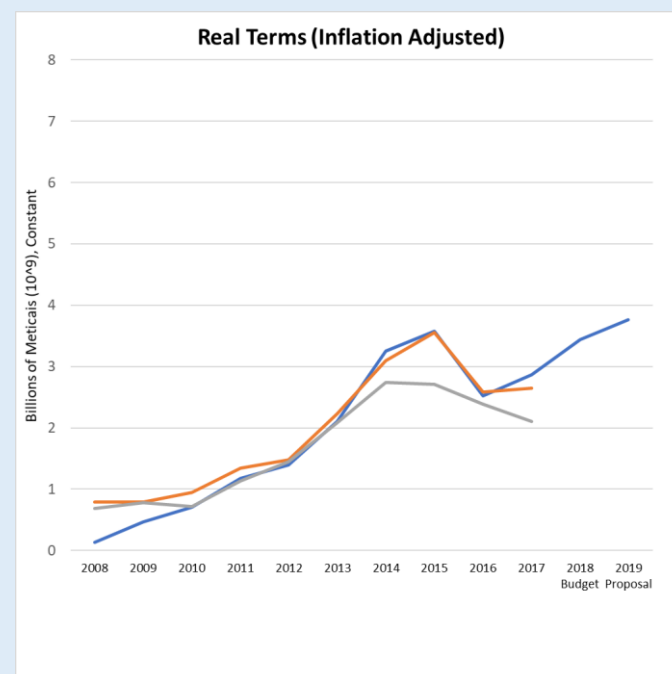
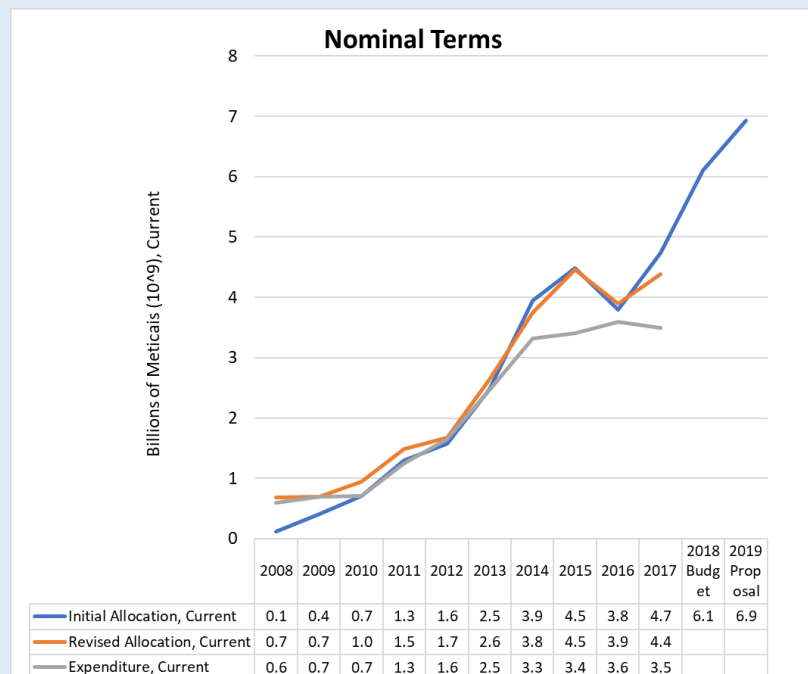
	Indicators	2019 PQG Goal	2018 Budget	2019 Proposal
Water	Number of water sources constructed and rehabilitated in rural areas	12,823	2,408	1,650
	Number of water systems constructed in rural areas	53	26	37
	Number of water systems constructed in urban areas	24	18	11
	Number of water distribution network systems in urban areas	214,618	13,500	23

Source: *Plano Economico e Social de 2019*, Page 30, Quadro 19 - *Desenvolvimento do Capital Humano e Social*.

IV. SOCIAL ACTION SECTOR

... The Social Action Sector was allocated MT 6.9 b in the 2019 Budget Proposal, representing allocation to the sector both in nominal and real terms...

Figure #27: Budgeting and Expenditure in the Social Action Sector



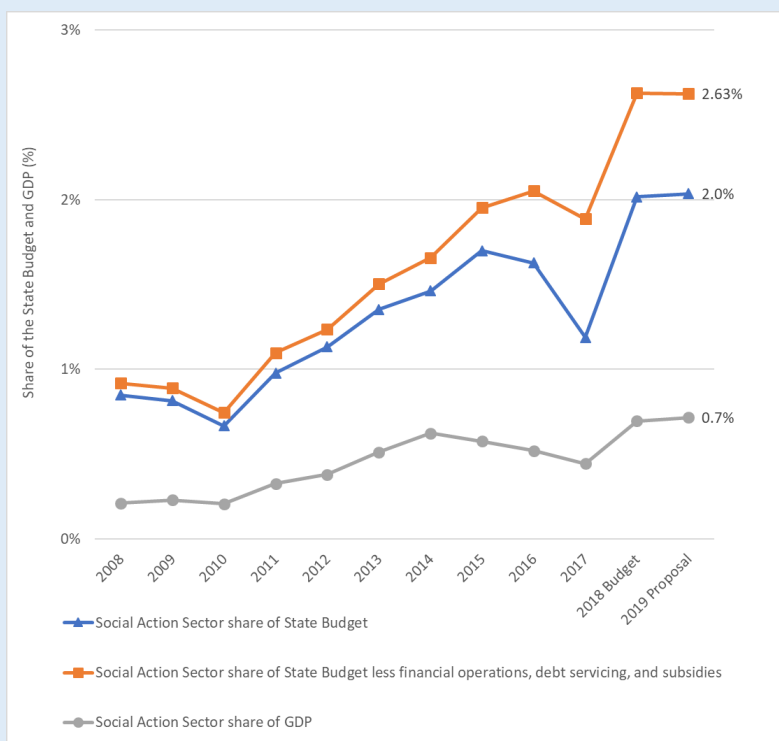
- In the 2019 Budget Proposal, the Social Action and the Employment sectors are combined a single priority sector that is planned to receive MT 7.6 b next year. This represents a 13 percent nominal increase relative to 2018 Budget, and a 50 percent increase relative to 2017 expenditure.
- It is important to note that other relevant budget and expenditure documents, such as State Budget Execution Reports (REOs) and General State Accounts (CGEs) classify Social Action and Labor & Employment as two different priority sectors. Considering that the two sectors have different objectives and target populations, it would be important that the Budget Proposal and State Budget as well classified Social Action and Labor & Employment separately.
- The graphs shown in this section of the analysis will consider the Social Action Sector intended in its narrow definition as the sector managed by MGCAS and INAS.

- The proposed allocation to the Social Action Sector is MT 6.9 b, representing the largest ever sector's allocation both in nominal and real terms.
- In nominal terms, the proposed allocation increased by 13 percent relative to 2018 Budget and by 46 percent relative to 2017 expenditure. In real terms, it increased by 9 percent compared to 2018 budget and by 31 percent compared to 2017 expenditure.
- Budget and expenditure in the Social Action Sector have been overall well-aligned over the years; nevertheless, disparities between budget and expenditure have progressively increased since 2014 and have reached a difference of approximately 25 percent in 2017. Hence the initial budget allocation is no longer a reliable indication of how much will be spent in the sector.

IV. SOCIAL ACTION SECTOR

... Social Action share of the proposed budget and of the expected GDP have increased relative to last year. In the 2019 Budget Proposal, Social Action is worth 2 percent of the total resources. Excluding financial operations and debt servicing the sector represents 2.6 percent. The proposed allocation to Social Sector represents 0.7 percent of GDP.

Figure #28: Weight of Social Action Sector as a share of Government Expenditure and GDP

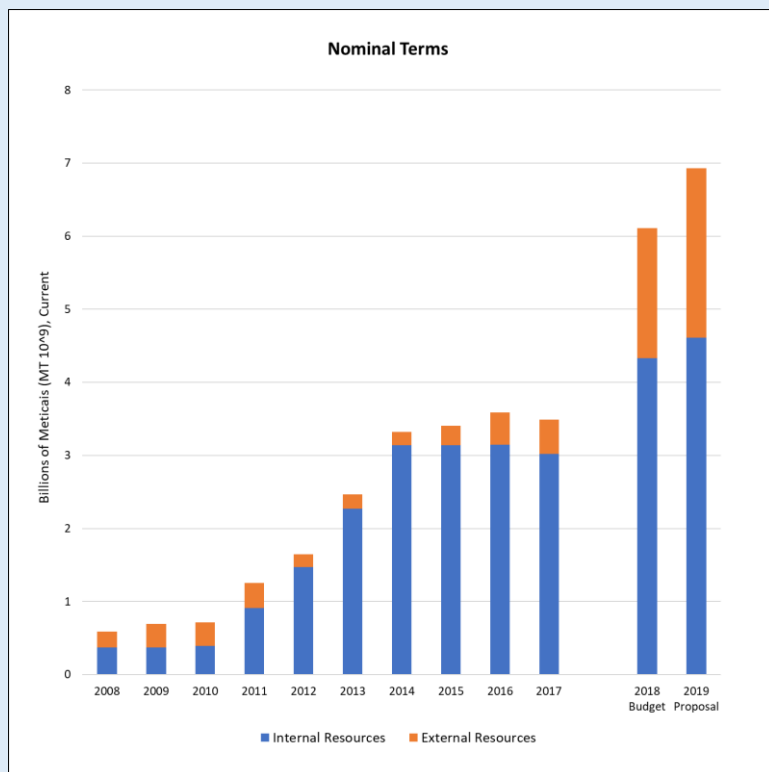


- The 2019 proposed allocation to Social Action represents 2.63 percent of the proposed budget, less financial operations and debt servicing. As a share of the *entire* proposed budget, the proposed allocation is worth 2 percent.
- Regardless of what methodology is used to compute the shares, these are on par with 2018 sector's shares of Government expenditure.
- As a share of GDP, the 2019 proposed allocation to Social Action is worth 0.7 percent representing a slight increase relative to 2018 budget

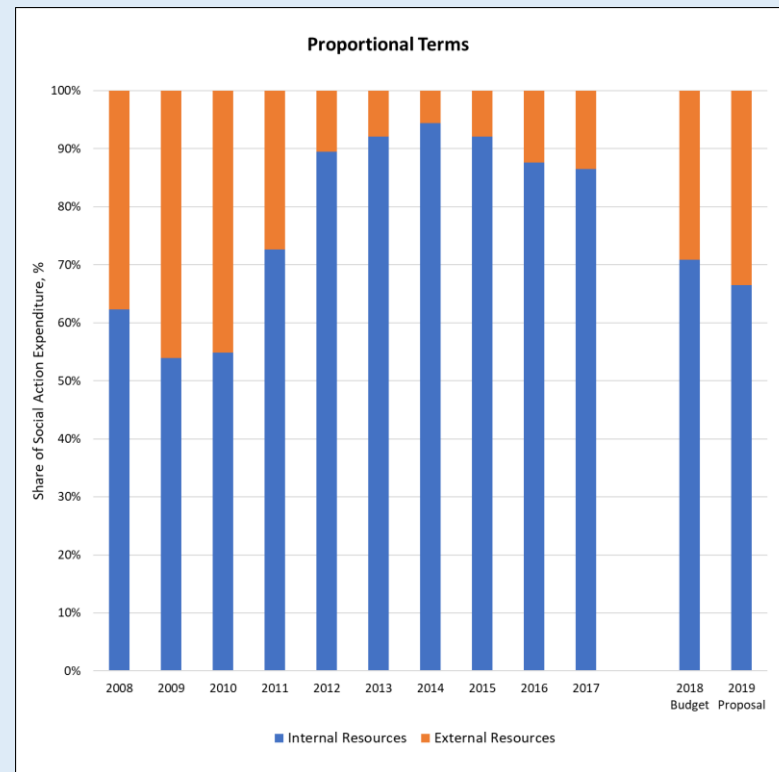
IV. SOCIAL ACTION SECTOR

... The Government of Mozambique has steadily increased internal funding to the Social Action Sector, and it has reached its largest nominal and real-terms contribution in 2019 Budget Proposal. Nevertheless, in proportional terms, the 2019 Proposed Budget shows a decline in the internal-to-external resources ratio...

Figure #29: Internal versus External Social Action Resources



- Internal resources dedicated to the Social Action sector in the 2019 Proposal represent the the largest ever nominal and real terms internal allocation to the sector.
- Relative to 2018 budget, internal resources increased by 6 percent in nominal terms, and by 2 percent in real terms.



- In proportional terms, the 2019 proposed internal funding to Social Action represents a decrease relative to 2018 budget and 2017 expenditure. In fact, while government resources were worth 86 percent in 2017 expenditure and 71 percent in 2018 budget, they are expected to be worth approximately 67 percent in 2019.
- Nevertheless, it is important to highlight that the largest only external investment is the World Bank credit to the PASP program; while this is tracked as external resources, the Mozambican Government will have to pay back the loan and the corresponding interest. Hence, the PASP program is de facto internally-funded

VIII.SOURCES *and* NOTES for FIGURES

Figure #1: Source: CGE 2008-2017; LOE 2018, OE 2019 *Proposta* | Note: MEF CGE refers to the Ministry of Economy and Finance's General State Account data.

Figure #2: Source: IMF WEO 2008-2017 (actual) 2018-2019 (projections); CGE 2008-2017; LOE 2018, OE 2019 *Proposta* | Note: IMF WEO refers to the International Monetary Fund's World Economic Outlook data from October 2018.

Figure #3: Source: CGE 2008-2017: *Quadro, Equilibrio Orcamental*; LOE 2018: *Quadro, Previsao da Despesa do Estado*; OE 2019 *Proposta: Quadro, Previsao do Financiamento do Orcamento do Estado*.

Figure #4: Source: CGE 2008-2017: *Tabela, Despesas Totais por Ambitos*; LOE 2018: *Tabela, Alocacao por Ambito*; OE 2019 *Proposta: Tabela Alocacao por Ambito*.

Figure #5: Source: CGE 2015-2017: *Documento da Fundamentacao*; LOE 2018: *Mapa D*; OE 2019 *Proposta: Mapa D*. World Bank, World Development Indicators: Consumer Price Index | Note: 2015 does not include debt servicing and financial operations; CPI 2010=100.

Figure #6: Source: CGE 2009-2017; LOE 2018; OE *Proposta* 2019; *Quadro, Despesas nos Sectores Económicos e Sociais*.

Figure #7 : Source: CGE 2009-2017; LOE 2018; OE *Proposta* 2019; *Quadro, Despesas nos Sectores Económicos e Sociais*.

Figure #8: Source: CGE 2017; OE 2019 *Proposta*.

Figure #9: Source: CGE 2009-2017; LOE 2018; OE *Proposta* 2019; *Quadro, Despesas nos Sectores Económicos e Sociais* | Note: Percentages are represented as a share of total state expenditures (excluding financial operations and debt servicing). WASH totals are the author's calculations from the CGEs 2009-2017. WASH is a sub-sector of the Infrastructure sector and thus the WASH total is represented as a share of Infrastructure. The Millenium Challenge Account (MCA) was not included in the priority sector sum totals. In 2015, there was a different categorical structure compared to 2009-2014 and thus cannot be directly compared.

Figure #10: Source: Author's compilation from CGE 2017; LOE 2018; OE 2019 *Proposta*.

Figure #11: Source: Author's calculations from CGE 2008-2017; LOE 2018; OE 2019 *Proposta*; World Bank, World Development Indicators: "Government spending on education (% of total government expenditure)" for low income and sub-Saharan Africa countries.

Figure #12: Source: Author's calculations from CGE 2008-2017; LOE 2018; OE 2019 *Proposta*.

Figure #13: Source: Author's calculations from CGE 2008-2017; LOE 2018; OE 2019 *Proposta*.

Figure #14: Source: Author's calculations from CGE 2008-2017; LOE 2018; OE 2019 *Proposta*.

Figure #15: Source: Author's compilation from PES 2019 *Proposta*.

Figure #16: Source: Author's calculations from CGE 2008-2017; LOE 2018; OE 2019 *Proposta*.

Figure #17: Source: Author's calculations from CGE 2008-2017; LOE 2018; OE 2019 *Proposta*.

Figure #18: Source: Author's calculations from CGE 2008-2017; LOE 2018; OE 2019 *Proposta*.

Figure #19: Source: Author's compilation from OE 2019 *Proposta*.

Figure #20: Source: Author's calculations from CGE 2008-2017; LOE 2018; OE 2019 *Proposta*; World Bank, World Development Indicators: "Government spending on health (% of total government expenditure)" for low income and sub-Saharan Africa countries.

Figure #21: Source: Author's compilation from PES 2019 *Proposta*.

Figure #22: Source: Author's calculations from CGE 2008-2017; LOE 2018; OE 2019 *Proposta*.

Figure #23: Source: Author's calculations from CGE 2008-2017; LOE 2018; OE 2019 *Proposta*.

Figure #24: Source: Author's calculations from CGE 2008-2017; LOE 2018; OE 2019 *Proposta*.

Figure #25: Source: Author's compilation from OE 2019 *Proposta*.

Figure #26: Source: Author's calculations from CGE 2008-2016; LOE 2017; OE 2018 *Proposta*.

Figure #27: Source: Author's calculations from CGE 2008-2017; LOE 2018; OE 2019 *Proposta*.

Figure #28: Source: Author's calculations from CGE 2008-2017; LOE 2018; OE 2019 *Proposta*.

Figure #29: Source: Author's calculations from CGE 2008-2017; LOE 2018; OE 2019 *Proposta*.