



**Provincial Budget Allocations in the Health, Education and Water Sectors:  
An Analysis 2003-06**

by

**Simon McCoy**

And

**Imarciana Cunamizana**



Discussion papers  
No. 58E

January 2008

National Directorate of Studies  
and Policy Analysis

Ministry of Planning and  
Development

Republic of Mozambique

The intent of the discussion paper series is to stimulate and exchange ideas on issues pertinent to the economic and social development of Mozambique. A multiplicity of views exists on how to best foment economic and social development. The discussion paper series aims to reflect this diversity.

**As a result, the ideas presented in the discussion papers are those of the authors. The content of the papers do not necessarily reflect the views of the Ministry of Planning and Development or any other institution within the government of Mozambique.**

The logo was kindly provided by the artist Ndlozy.

Acknowledgements. Financial support from UNICEF and analytical support from UNICEF staff, particularly Jean Dupraz, is gratefully acknowledged.

For every child  
Health, Education, Equality, Protection  
ADVANCE HUMANITY



Contact:

Imarciana Cunamizana  
DNEAP/MPD  
Av. Ahmed Sekou Touré, 21  
Maputo Mozambique

[imarcianacunamizana@dnpo.gov.mz](mailto:imarcianacunamizana@dnpo.gov.mz)

## Table of Contents

1	Introduction.....	1
2	Methodology .....	1
2.1	Limitations .....	1
2.2	Collection of Data.....	2
2.3	The ‘Black Box’ of Centrally-Administrated Funds .....	2
3	The State Budget: How are Provincial Funding Limits Established?.....	3
3.1	Recurrent Expenditure .....	5
3.2	Investment Expenditure .....	6
3.2.1	External Component .....	6
3.2.2	Internal Component .....	7
3.2.3	Sector Planning .....	8
4	Results.....	10
4.1	Health.....	11
4.2	Education .....	15
4.3	Water.....	18
5	Conclusions and Recommendations .....	21
6	Bibliography .....	24

**Provincial Budget Allocations in the Health, Education and Water sectors of  
Mozambique:  
An analysis 2003-06**

*'It is now important to use and analyse various methods to better focus efforts and resources where poverty impacts most, thus establishing the link between the analysis of poverty and political economy of the state budget.'*

Translated from the Aide Memoire da Revisão Conjunta de Abril 2007.

**EXECUTIVE SUMMARY**

An observation often voiced in Mozambique surrounds certain apparent disparities between provincial levels of development and state budgetary allocations: Those provinces in most need appear to receive less. The paper attempts to shed some light on this concern. Specifically, the objective is twofold: To collect and present key data detailing provincial budgetary allocations for the sectors of health, education, and water over the period 2003 to 2006 in Mozambique, and to analyse this data as well as past and current budgetary processes to understand why the allocation patterns across provinces are as they are.

In short, there are two channels through which provinces in Mozambique receive state budget funds: Provincial and Central allocations. The former category refers to allocations in the state budget appearing in the '*Âmbito Provincial*' that go directly to the Provincial Directorate, and that thus bypass the central ministry. The latter refer to the '*Âmbito Central*' part of the budget, and refer to funds that are allocated to, and controlled by, the central functions of the sector ministry in Maputo. Naturally, the majority of these funds are in reality spent in the provinces as well- indeed given the size of the central allocation, such funds will often come to represent the majority of financial spending in the provinces. Such numbers are accentuated by the fact that financing from external donors to a given province are more often than not still channelled via the central ministry.

With the above in mind, the study looks into the 'black box' of such centrally-administrated funds, to attempt to split territorially and consequently gain the full picture vis-à-vis sector finances spent in provinces. This is a highly imperfect exercise, given that allocation of such funds is often not conducted explicitly by province. Moreover, single projects may have multiple provincial destinations, making it difficult to know with certainty where money is spent. Nevertheless one can gain some indication of the geographical destinations for certain projects, and as is shown below, incorporating such resources into provincial allocation totals does have a significant impact on observed provincial spending patterns.

Indicative results for the period covered by the study point to similar conclusions in all three sectors considered- *per capita* allocations of state budget resources do not appear to be equal across provinces.

It is, of course, true and important to emphasise that provincial *per capita* equality is not necessarily entirely desirable- investment needs will not always correlate with population or indeed certain broad development indicators. Geographical land areas and the associated population densities play a role in influencing costs of investment, for example. Nevertheless, the observed provincial patterns are strongly indicative of an unequal territorial distribution of resources, with the most populous provinces of Nampula and Zambezia consistently losing out. Over the period 2003-06, per capita health expenditure in Zambezia for example, averaged USD 3.73 versus 5.70 for the country as a whole. Similarly, per school student education expenditure in Zambezia averaged 40.94 over the period, versus 61.53 for the country. High coefficients of variance, measuring the relative spread of the distribution, confirm the unequal per capita provincial allocations.

Comparing budgetary allocations with provincial poverty levels as defined by the Severe Health Deprivation indicators (see UNICEF, 2005) shows a more unequal picture, with no clear correlation between need as defined by 'Severe Deprivation' and final allocations of the state budget.

The paper attempts to explain such patterns by considering in turn the Recurrent and then the Investment Expenditure sections of the state budget. In the case of Recurrent Expenditure, the current methodology of extrapolating the budgetary execution of the previous year means that past provincial patterns, fair or unfair, are on the whole maintained and perpetuated. Based on their plans and budget proposals, sectors and provincial authorities are, of course, free to recommend deviations from initial budgetary ceilings, and indeed often do with some success. However, changes to total flows by province are in practice difficult to achieve. Budgetary resources in Mozambique are severely constrained, meaning that any increase in one province or sector necessarily implies a corresponding reduction in another. As such, in the elaboration of their plans, sectors and their Provincial Directorates tend to work broadly within the initial budgetary limits, proposing at most incremental increases, rather than any significant steps away from the status quo.

With respect to Investment Expenditure, while the picture is more complex, the same basic themes emerge. Investment plans and budget proposals are written by sectors, and while one can debate the equity and efficacy of one or another of the indicators used, the fact is that *final* budgetary allocations do not completely reflect sector preferences. One might argue that the key really relates to in whose hands the power lies with regard to the final decision: Sectors control somewhat proposals, but not final allocation.

Given this, three (non-mutually exclusive) broad recommendations are considered with the aim of leading to a more equal territorial distribution of resources- namely:

**(i) Incorporation of a provincial dimension into the Medium-Term Expenditure Framework of Mozambique (*Cénario Fiscal do Médio Prazo, CFMP*);**

In the current format of the CFMP, the provincial allocation of funds is simply implicit in the analysis: implied but not explicitly presented. The introduction of an explicit consideration of the provincial distribution of resources as implied by sector plans would help to increase transparency of budget proposals from a territorial perspective.

It is recommended that this is initially done by the CFMP coordination team based on the sector plans received. The implied provincial distributions should then be discussed with the sector firstly to ensure accuracy and subsequently to understand any qualitative explanations for the territorial patterns.

**(ii) Extraordinary one-off adjustment;**

The above discussion shows that for any *significant* move away from provincial imbalances, effort is needed to correct the base off which current budget processes work. This would imply the concerted targeting of those underserved provinces over the medium-term, perhaps in parallel to the normal functioning of the budget apparatus.

A donor-financed fund with the explicit aim of funding those provinces found to be relatively disfavoured might constitute an efficient way to achieve this.

**(iii) Increased effort by all stakeholders to harmonise donor preferences with those of the recipient sector.**

While in recent years, this has been happening with increasing momentum and success, the results of the study would argue that there remains some way to go. This is demonstrated most clearly in the final allocation of resources in the External Component of Investment.

## 1 Introduction

An observation often voiced in Mozambique surrounds certain apparent disparities between provincial levels of development and state budgetary allocations: Those provinces in most need appear to receive less. Indeed, as UNICEF note, ‘...it is particularly striking that State Budget allocations for key sectors often do not correspond to the pattern of child development indicators.... There is therefore a clear need to review, based on evidence, the criteria used to allocate state budget resources and to attain a more equitable allocation...’<sup>i</sup> This paper will attempt to shed some light on this concern. Specifically, the objective here is twofold: To collect and present key data detailing provincial budgetary allocations for the sectors of health, education, and water over the period 2003 to 2006 in Mozambique, and to analyse this data to understand why the allocation patterns across provinces are as they are.

The study will be split into four further sections. Firstly, the methodology used to attempt to capture the totality of provincial financial resources is outlined and explained. The question of how funds reach provinces and based on what criteria will then be addressed, making the important distinction between Recurrent and Investment Expenditure. With this context in mind, results will be presented for the Health, Education and Water sectors showing provincial allocation and execution patterns. Some comparative analysis with childhood severe deprivation levels will also be considered, to provide a, albeit simplistic, poverty aspect to the analysis. The final section concludes with some final reflections and tangible policy recommendations, with particular attention to the CFMP (*Cénario Fiscal de Médio Prazo*).

## 2 Methodology

### 2.1 Limitations

The potential shortfalls of doing an exercise like this in Mozambique are well-known and documented. Nevertheless, I would highlight the following caveats as a precursor to the analysis below.

Firstly, there is of course, a scarcity of data. This is particularly acute in the area of off-budget sector financing as well as execution rates for the External Component of state budget investment spending.<sup>ii</sup> As one might expect, such problems are particularly acute the further back in time one looks, though transparency improved significantly in 2005 and 2006. In the case of this study, large problems were also encountered in trying to ascertain the beneficiaries, *by province*, of centrally-administrated expenditure. As we will see in detail below, *indirect* financial flows from the central level to the provinces are hard to quantify. This is often due to the fact that planning by sectors is rarely conducted on an explicitly geographical basis. Rather, programs (of the sector, or funded by donors) will often target services spanning multiple provinces. Splitting resources allocated to these programs by province is therefore rarely straightforward.

Furthermore, data where it does exist is rarely consistent across sources. Due to irregular disbursement patterns or discretionary changes to ‘final’ budgetary allocations during the year for example, budgetary allocation numbers found in the official government accounts will often differ from those appearing in annual sector financial reports. Again, this is particularly so in the case of investment expenditure.

---

<sup>i</sup> Recommendation 1 (p217) of ‘*Childhood Poverty in Mozambique: A Situation and Trends Analysis.*’

<sup>ii</sup> While sectors and their donors are being persuaded, on the whole, to write their projects onto the state budget, obtaining financial information regarding money spent (ie execution) remains very difficult.

In addition to such data inconsistencies, one finds large differences in the understanding of core budgetary procedures and mechanisms among the different stakeholders. This is undoubtedly in large part due to the broad movement toward a more decentralised form of budgetary planning and execution, meaning that at the time of writing, many of Mozambique's financial processes are in a period of significant flux. Procedures in place today are not, in general, those that were used in the recent past- a fact that should be borne in mind when interpreting the historical data sets that will be presented below. Compounding this are the many different *opinions* that one encounters depending on with whom you are speaking. Central line-ministries, their provincial directorates, and the National Directorate of Budget in the Ministry of Finance (*Direcção Nacional do Orçamento: DNO*) all offer varying explanations of what is actually happening, particularly with respect to others' actions. In short, finding a consensus even on the realities of the process is not always easy.

## 2.2 Collection of Data

With the above caveats in mind, the broad approach to this study was to use as a statistical base the official Mozambican government accounts<sup>iii</sup> which are published annually. The accounts provide core budgetary information across sectors, type of expenditure (*Classificador Económico*) and territorial area (central, provincial and by district). Numbers were cross-checked with sector financial reports<sup>iv</sup> to ensure consistency.

In the case of Recurrent Expenditure, differences between the two sources were minimal. Given the low complexity of this category, this was not surprising- salary information is relatively transparent and well-controlled. As noted above however, for Investment Expenditure, larger differences, especially in case of execution rates were encountered. There is no certain response to this, though the fact that data held by the Ministry of Finance is almost always less comprehensive than that of the sector hints toward the fairly safe assumption that differences are primarily due to an asymmetry of information between the sector and the DNO. As such, the general rule employed here was to go with sector data as they are closer to what was happening and thus able to provide more complete information.

## 2.3 The 'Black Box' of Centrally-Administrated Funds

In short, there are two channels through which provinces receive state budget funds: Provincial and Central allocations. The former category refers to allocations in the state budget appearing in the '*Âmbito Provincial*' that go directly to the Provincial Directorate, and that thus bypass the central ministry. Complete control over the use of such funds thus remains firmly in the hands of the province: Indeed, once a Provincial Directorate requests part of its allocation through e-SISTAFE, the money is transferred directly from the Single Treasury Account (*Conta Única de Tesouro, CUT*) of the National Treasury to the bank account of the Provincial Directorate<sup>v</sup>.

The latter category refers to the '*Âmbito Central*' part of the budget, and refer to funds that are allocated to, and controlled by, the central functions of the sector ministry in Maputo. Naturally, the vast majority of these funds are in reality spent in the provinces as well. Indeed

---

<sup>iii</sup> Conta Geral do Estado (CGE) published by the Contabilidade Pública of Mozambique.

<sup>iv</sup> Usually in the form of the annual reports from the respective sector financial departments (*Direcções de Administração e Finanças: DAF*) and the annual investment plans (*Plano Trienal do Investimento Público, PTIP*).

<sup>v</sup> This with the exception of salaries which are still transferred firstly to the Provincial Directorate of Planning and Finance, and subsequently directly to the account of the civil servant.

given the size of the central allocation, such funds will often come to represent the majority of financial spending in the provinces. For the period 2003-06, for instance, investment funds administrated centrally represented between 60% and 80% of total sector investment financing in the Health, Education and Water sectors. Such numbers are accentuated by the fact that financing from external donors to a given province are often channelled via the central ministry.

Notably, as part of the recent drive to a more decentralised form of budgeting, the DNO has started to insist that responsibility for investment projects currently administrated at the central level, and where the destination is known, be transferred to the respective province. Indeed, while it does certainly make sense for certain types of expenditure to be financed and controlled centrally (procurement of drugs in health for example), it might equally be sensible to give Provincial Directorates more control over funds destined to other areas. As such, one should expect to see a marked rise in the *Âmbito Provincial* section of the budget over the coming years. Perhaps unsurprisingly, a number of sectors at the central level are showing some resistance to this, preferring to maintain control over the funds, and often informally citing concerns regarding potential interferences by local government authorities over their desired destination. The fungibility of the provincial budget within Provincial Directorates represents an additional preoccupation, with authorities often having to dip into their Investment Budget in order to supplement recurrent costs.

#### **Box 1: e-SISTAFE**

e-SISTAFE, the recently implemented on-line state budget management system, has two modules, one for the elaboration of the budget, one for execution: *Módulo de Elaboração Orçamental, MEO* and *Módulo de Execução Orçamental, MEX*, respectively.

The implication of the above discussion is that much of sector budgeting is currently being decentralised just in the MEX, not in the MEO. Any future analysis of the 'Black Box' should therefore be careful to examine data included in the MEX for a more accurate picture of the provincial disaggregation of centrally-administrated resources.

With the above in mind, the trick for this study is to be able to look into the 'black box' of such central funds, to attempt to split territorially and consequently gain the full picture vis-à-vis sector finances spent in provinces. As alluded to above, unfortunately this is a highly imperfect exercise, given that allocation of such funds is often not conducted explicitly by province. Moreover, single projects may have multiple provincial destinations, making it difficult to know with certainty where money is spent. Nevertheless one can gain some indication of the geographical destinations<sup>vi</sup> for certain projects, and as is shown below, incorporating such resources into provincial allocation totals does have a significant impact on observed provincial spending patterns.

Data was thus collected in two steps, with the more readily available direct provincial allocations analysed firstly, and the centrally-administrated funds subsequently distributed amongst the eleven provinces to complete the picture.

### **3 The State Budget: How are Provincial Funding Limits Established?**

The process that results in final state budgetary ceilings for sectors and provinces in Mozambique is complex, involving a number of different methodologies conducted by different stakeholders. These often happen in parallel. In simple terms, three key groups of

<sup>vi</sup> On the whole, it was possible to disaggregate half of centrally-administrated investment resources by province in this study.



activities can be identified: (i) Sectors (*at the central, provincial and district levels*), in the form of the CFMP and later, the PES (*Plano Económico Social*), write and submit their respective budget proposals for the coming year; (ii) the DNO in conjunction with various Directorates in the Ministry of Planning and Development (*Ministério de Planificação e Desenvolvimento, MPD*) sets preliminary budget limits<sup>vii</sup>; and (iii) in light of (i) and (ii), budget discussions/negotiations take place between key stakeholders, including the DNO, the MPD, sectors (central and provincial representatives) and provincial governments.

Depending on the sector<sup>viii</sup>, the year, and the type of expenditure (recurrent or investment), the relative importance of these three activities to the final result varies.

Moreover, because of their interlinked nature in practice, it is difficult to consider each in isolation. As such, and in order to contextualise the following discussion, the budgetary calendar of Mozambique is considered below, outlining some of the key activities that take place in the elaboration of the state budget.

<b>February – April</b>	Update of CFMP (for year n+1...3), to determine the overall resource envelope consistent with the macroeconomic framework, and define the initial sector ceilings. Municipality, District and Provincial PES and Budget Proposals drafting begins.
<b>May</b>	CFMP envelope and ceilings approved. Initial budget ceilings sent to sectors and other budget units, with the methodology for formulating proposals for the OE and PES ( <i>by 31<sup>st</sup> May</i> ).
<b>May – 31 July</b>	In light of initial budget ceilings, sectors and other budget units prepare budget proposals and submit them to DNO / MPD.
<b>August</b>	Final update of resource envelope and allocations proposed in CFMP and state budget, based on donor commitments. DNO / MPD hold budget discussions, compile and consolidate overall proposals for OE and PES.
<b>15 September</b>	Draft OE and PES are sent to the Economic Council and then to the Council of Ministers for approval.
<b>30 September</b>	Draft OE and PES are submitted to Parliament.
<b>15 December</b>	Deadline for parliamentary approval of OE and PES.

*Source: Discussions with DNO, and drawing heavily on De Renzio & Sulemane (2005) and UNICEF (2006)*

At the provincial level, it is instructive to highlight that the process of elaborating budget proposals generally has begun early, with Provincial Directorates starting to write the PES for the following year in the month of April. This is done in close coordination with the District Directorates, culminating in a Provincial Planning Meeting to which all districts attend usually in the month of May. While the process is thus very much characterised by a ‘bottom up’ approach (the Provincial Plan is the sum of the Districts’ Plan) it is also tied closely to the overarching longer-term global sector strategy plans- often acting as the ‘guiding light’ to the provincial plans.

With the above in mind, we now specifically address the question as to how provincial state budget allocations are arrived at. In broad terms, the state budget of Mozambique is split into two distinct parts: Recurrent and Investment Expenditure. The sources and destination of financing, as well as the techniques used for their respective allocations are quite different, and I therefore consider each separately.

<sup>vii</sup> It is important here to note the word *preliminary*- as we will see below, such limits can be subject to change due to sector or provincial government preferences.

<sup>viii</sup> The four social sectors considered key to development, namely Health, Education, Water and Agriculture, have in the past received different treatment to the other sectors.

### 3.1 Recurrent Expenditure

From 2003 to 2006, Recurrent Expenditure represented approximately half of the total state budget in the three sectors considered in this analysis, with the payment of civil servant's salaries accounting for the vast majority of this<sup>ix</sup>. Payment for 'Goods and Services' represents most of the remainder. This part of the state budget is used then to pay for the day-to-day running costs of state institutions, and is financed almost entirely by domestic fiscal collections and customs duties.

All Recurrent Expenditure spent in the provinces does appear in the *Âmbito Provincial* part of the budget, with the administration of such funds therefore being conducted by provincial authorities.

Broadly speaking, the allocation process here is very centralised, with the DNO responsible for setting preliminary budget ceilings for all recurrent expenditure by sector and by province. A simple formula is used with two common characteristics:

- (i) Budgetary execution of the previous year is used as the base, and
- (ii) Numbers are adjusted to reflect inflation.

Within the salary component, an attempt is made to estimate the effect of possible promotions and increases in staff numbers. However, given the lack of data and transparency regarding even the most basic variables that would be needed to conduct such an analysis accurately, in reality a general augmenting coefficient is applied across the board to reflect for this. In recent years, this has been in the region of +10%.

For those other items, such as 'Goods and Services', growth in relation to the previous year's execution is generally kept constant in real terms, perhaps with slight increases should resources allow.

These provincial and sector budget limits are communicated to the Provincial Directorates of Planning and Finance (*Direcções Provincias de Plano e Finanças, DPPFs*) as well as the central ministries, with the former subsequently passing them onto the Provincial Directorates<sup>x</sup>. It is worth remembering here that preliminary sector budget proposals are prepared *before* receiving the initial budget ceilings from the DNO or central line-ministries. Writing a plan without knowing the financial input is naturally very tricky, and whilst the previous year's execution is generally used as a base, Provincial Directorates encounter problems keeping expectations in check. As a result, on receipt of the initial budget ceilings, plans inevitably have to be revised downward. To illustrate the point, this is so even in the case of salaries, where more available and transparent data regarding number of staff for example, might lead one to expect a high degree of objectivity in planning. Importantly, within the subsequent writing of the PES and budget negotiation meetings with the DNO in August, the DPPF in conjunction with the sector Provincial Directorates have the opportunity to recommend deviations from the preliminary ceilings. However, given that the vast bulk of recurrent expenditure is allocated to areas in which commitments have, in many cases, already been taken (most notably with the payment of salaries), in reality this does not normally result in large alterations.

As an aside, certain aspects of the procedure described above are very recent. Indeed, in the years until 2005, the DNO simply sent a total provincial allocation split by economic classifier, but not by sector, to the DPPF. Responsibility thus lay with the DPPF to allocate between sectors. While sector plans considering the number of active workers, planned promotions etc as well as numerous meetings with the sectors were used here, in practice

---

<sup>ix</sup> See Tables H1 and E1 for the accurate statistics regarding this.

<sup>x</sup> As can be seen by the planning calendar above, this happens at the end of May of each year.

there were also a lot of ‘quick-fixes’ used to match the total limit communicated to the sum of the sectors’ requirements. In the 2006 then, the role of the DPPF was toned down somewhat to one of a coordinator and mediator. Today, it will ensure that the needs of the province are well reflected in the PES proposals and will actively encourage sectors it feels are underserved to argue for more funds. This comes particularly true at the time of the Budget Discussions held in August of each year, when the DPPF plus two representatives from each sector travel to negotiate final allocations.

In conversations at the provincial level, one hears that sector Provincial Directorates do feel some empowerment in the process of budget negotiation. Indeed, the DPPF of Zambézia, for example, travels to Maputo in August with two proposals: One reflecting the initial indicative limits set by the DNO, and one based on their perception of what the provincial needs are. While there is an awareness that the state budget is not infinitely elastic, negotiating a slight increase to the initial ceilings, toward a more accurate reflection of their needs, is possible and sometimes achieved. Nevertheless, this part of the budget is generally taken as a given, or exogenous, by line-ministries.

Within this part of the state budget then, there exists a tendency for the status quo to continue: the incremental logic of extrapolating from the execution of the previous year means that existing provincial patterns are in general maintained. Moreover, provinces (and indeed sectors) suffering from low execution rates, in many cases due to factors outside of their direct control, are penalised<sup>xi</sup>.

### 3.2 *Investment Expenditure*

As the name would suggest, the majority of the Investment budget is used for expenditures on physical capital. Having said this, a certain part also ends up financing day-to-day costs that are not covered by the Recurrent Expenditure section of the OE. This is illustrated not only by the fact that medicines and text books for example, goods purchased on a recurrent basis, appear in the Investment part of the budget, but also by the afore-mentioned tendency for the Recurrent Expenditure section of the budget to fall short of necessities, forcing provincial authorities to dip into investment budgets to finance salaries and other day-to-day commitments.

The Investment section of the state budget is divided into two (inter-related) parts, known as the External and Internal Components.

#### 3.2.1 External Component

The External Component essentially includes a list of approved investment projects financed directly by external donors. For this component, two general key conditions are required to be met by the DNO in order for a project to be written onto the budget:

- Guaranteed financing;
- Objectives are in accordance with government plans.

In conversations with sectors, a common observation heard is that in applying the above criteria, the DNO is overly strict in its approach, often refusing to write projects onto the budget that are not in complete accordance with the rules<sup>xii</sup>. While such regulations are completely understandable, the inevitable result is that many donor-financed projects remain off-budget. Furthermore, it should not be forgotten that due to the asymmetry of information

---

<sup>xi</sup> In this regard, with a large highly disbursed population, often with large distances between communities and poor infrastructure, Zambezia is often cited as a province that suffers here.

<sup>xii</sup> Having said this, in the past couple of years one hears of an easing, with some commentators even suggesting an ‘over-eagerness’ to write projects onto the 2007 and 2008 state budgets.

between the DNO and the sector, the former is wholly reliant on the latter to provide information regarding such projects. Simple disorganisation or lack of understanding regarding what can and cannot be included therefore commonly accentuates such problems, causing sectors to miss deadlines and meaning that some large projects do not appear in the OE. Nevertheless, the situation has ameliorated significantly in recent years, shown by large rises in the External Component<sup>xiii</sup>.

It is important here to draw the distinction between external projects that are written into the OE, 'on-budget', and those whose funds are actually channelled via the treasury single account, 'on-CUT'. While the Government is enjoying some success in capturing projects with external financing onto the OE, persuading donors to channel funds via the treasury is a completely different matter: The fear presumably is that funds earmarked for a particular project may be diverted to alternative ends if the donor forfeits control. A large part of the External Component is thus 'on-budget, off-CUT', with some transparency regarding what projects are happening, and the proposed amount to be spent, but making it very difficult to discover money actually spent (execution) with funds bypassing the Ministry of Finance and moving directly from the donor to the beneficiary institution. Moreover, it remains quite rare for projects in this External Component to appear in the Provincial section of the OE- Given their nature, often financing to large projects targeting numerous provinces, they are more often than not canalised through the central ministry (*though this is gradually changing- see above section on the 'Black Box'.*)

In the case of the External Component, therefore, the total resource envelope, as well as the provincial allocation is largely determined 'bottom-up' by the projects that external donors choose to finance. The extent to which the sector enjoys some sway vis-à-vis donor preferences is not easy to quantify, though one does commonly hear that the situation has recently shifted in favour of the Mozambican government- with donors increasingly willing to follow the sector strategic plans. Nevertheless, the fact that it is rare for final budgetary allocations to perfectly mirror sector investment plans would hint toward a lack of complete harmony.

For the purposes of our methodology therefore, two factors should be borne in mind.

- (i) Allocation and execution numbers appearing in the state budget will most probably represent an underestimation of the reality. To complement DNO data, therefore, sector data should be used;
- (ii) Looking into the 'Black Box' of the *Âmbito Central* in order to disaggregate these centrally-administrated projects by province is key.

### 3.2.2 Internal Component

The Internal Component of Investment Expenditure accounts for a far smaller part of total financing, often representing only a fraction of the External Component, and is funded largely by non-earmarked General Budget Support. Moreover, unlike the External Component of Investment, much of the Internal Component is managed at the provincial level and thus falls within the *Âmbito Provincial* part of the state budget<sup>xiv</sup>.

As in the case of Recurrent Expenditure, budget elaboration procedures for these direct provincial funds were modified (or more accurately decentralised) after 2005<sup>xv</sup>. For the years

---

<sup>xiii</sup> Any reader of the OE should be cautious to interpret large rises in the External Component as purely implying increases in aid. While this may explain some of the rise, a large part is also due to the simple fact that more and more projects (including certain sector Common Funds- eg FASE of education in 2006) are being captured onto the OE.

<sup>xiv</sup> This has been approximately 50% for the sectors and time period of this study.

<sup>xv</sup> Though the change, in practice, has been very subtle for the 'big four' social sectors of Health, Education, Public Works, and Agriculture.

until 2005, preliminary global countrywide sector limits for the ‘big four’ sectors were established by the DNO based on a series of meetings and subsequent discussions with the sectors in which investment proposals were presented<sup>xvi</sup>. The ‘big four’ were then given freedom to allocate amongst provinces as they saw fit, based on their own criteria (*see below for the details here*).

Since 2006, the general trend toward a more decentralised way of budgeting has meant that preliminary non-disaggregated provincial limits for the Internal Component of Investment Expenditure are communicated directly to the Provincial Governments and their respective DPPFs, thus bypassing the sector at this initial stage. The territorial allocation of these funds is conducted by the DNO using provincial macroeconomic indicators, and have in recent years involved the following:

- Human development indicator;
- Poverty indicator;
- Measure of existent infrastructure;
- Population of province.

The provincial authorities then have the responsibility to distribute amongst sectors.

While the role of the Provincial Authorities has thus on the surface increased considerably, the change in reality is perhaps less dramatic: due to the other two budgetary activities happening in parallel that were identified above. The fact is, of course, that the central ministries of sectors, and in particular those of the ‘big four’, continue to hold annual planning meetings with Provincial Directorates and write budget proposals. Moreover, during the budget negotiations in August, discussions are held each Provincial Directorate of the ‘big four’ involving always a representative from the central ministry.

In practice therefore, initial provincial limits for the ‘big four’ sectors arrive at the province predefined, with the DPPF receiving one further non-disaggregated limit for all *other* sectors, which it can distribute how it sees fit. Importantly here, in order to ensure that these so-called non-priority sectors do at least receive some investment financing, the provincial bodies cannot use this money to further supplement the ‘big four’.

### 3.2.3 Sector Planning

The most recent Methodology for the Elaboration of the CFMP (2009-11)<sup>xvii</sup> outlines in some detail four rather general principles that have to be observed in sector planning: Economy, Efficiency, Efficacy and Effectiveness. While in this document sent to sectors, some effort is made to clearly define each of these guiding principles, two important further points emerge. Firstly, it is evident that sectors are strongly encouraged to avoid an incremental approach to budgeting of simply extrapolating from previous years’ activities and associated costs. Rather, it is highlighted that sectors must prioritise activities (old and new) bearing in mind the finite resources to which they will have access. Secondly, the document openly states that the tools used by sectors to plan and propose budget limits depend on the ‘tradition of the sector in question.’ In other words, a common planning methodology is not imposed.

As one might expect therefore, methodologies employed for the provincial allocation of centrally-administrated investment resources have not been constant throughout the five years of this analysis or across sectors. Moreover, in practice, formulae and criteria are not always rigorously applied- Certain criteria may be used as a base, but a lot of case-by-case analysis also enters the equation. In the Health sector, for instance, investment funds are almost entirely destined to the expansion and revitalisation of the sanitary network and its support systems in the province. As alluded to above, however, there is a large amount of fungibility

---

<sup>xvi</sup> This series of meetings is known broadly as the ‘Supervision of the CFMP Methodology’.

<sup>xvii</sup> Written by the MPD.

in the use of investment funds, so that the Provincial Directorates of Health (*Direcção Provincial de Saúde, DPS*) will often in fact use the resources for all three levels of attendance (primary, secondary and tertiary). Such observations are applicable for Education and Water too.

Nevertheless, in broad terms one can identify three criteria that are frequently employed to prioritise provincial proposals for the Internal Component of Investment. Firstly, funds need to be sufficient to cover the counterparty obligations associated with externally financed projects<sup>xviii</sup>. Secondly, effort is made to ensure the conclusion of construction works that are already underway- given the multi-year nature of many investment projects, this will come to represent a sizeable slice of the total pie. Finally, allocations of any remaining resources are made in accordance with the sector's overall investment plan. As with the External Component, there is consequently also a large predetermined element to the allocation of the Internal Component of Investment Expenditure. Indeed, financing the counterparty commitments alone will often account for much of the total Internal Component: In the education sector for example, this reached as high as 30% of the Internal Component for the period 2003-06.

When (albeit rarely) the sector does enjoy some control over the distribution of resources, close attention is, on the whole, paid to the concept of provincial equality, with underserved provinces targeted to receive more. Some of the more commonly used criteria are presented in the box below:

<b>BOX 2: Sector Planning Investment Criteria</b>	
<b>Health</b>	<ul style="list-style-type: none"> <li>• Number of hospital beds per habitant in each province;</li> <li>• Level of demand for Health services: Number of Attendance Units (<i>Unidades de Atendimento</i>) in use;</li> <li>• Total value of infrastructures in place: USD per M<sup>2</sup> of land in the province.</li> <li>• 'The Theoretical Range of Action': Calculation measuring the geographical area of the province in relation to the number of Health Centres (<i>Unidades Sanitarias</i>)<sup>xix</sup>. Annual targets for each province are outlined ex-ante in the sector strategic plan, and the investment allocation proposed is thus equal to the amount of funds that would be required to reduce this ratio, through the construction of more Health Centres, to the targeted amount.</li> </ul>
<b>Education</b>	<ul style="list-style-type: none"> <li>• Number of School Pupils: By Province (and District) and by level (Primary, Secondary etc);</li> <li>• Number of School classrooms and their physical state- in each district of the province and by educational level,</li> <li>• Other key variables<sup>xx</sup>: <ul style="list-style-type: none"> <li>○ For example: Flux of students graduating from one level of schooling to another;</li> </ul> </li> <li>• Based on these statistics, the province and central ministry assess where need is greatest and allocates funds accordingly.</li> </ul>

<sup>xviii</sup> A significant proportion of the Internal Component of Investment is explained by the common commitment that the Government of Mozambique has to contribute the fiscal obligations (VAT and customs duties) of externally donated funds as well as a percentage of total projects costs: the so-called *comparticipações* or counterparty funds.

<sup>xix</sup> Planning and execution for Hospitals remains currently under the control of central health functions.

<sup>xx</sup> These all appear in the '*Carta Escolar*' that is updated by the education sector on an annual basis.



<b>Water</b>	<ul style="list-style-type: none"> <li>• <b>Rural Water</b> <ul style="list-style-type: none"> <li>○ Proportion of the population in a given province who are without access to water;</li> <li>○ Recent innovation has been to additionally take into consideration other off-budget sources of financing, so that the funding of those provinces already receiving some resources can be reduced and reallocated to other under-served provinces.</li> </ul> </li>   <li>• <b>Urban Water</b> <ul style="list-style-type: none"> <li>○ Prioritization of high population density areas;</li> <li>○ Coordination with FIPAG.</li> </ul> </li> </ul>
--------------	--

#### 4 Results

With the above discussions in mind, some results are now presented. Given the limitations outlined above, the reader is encouraged to concentrate more on identifying clear trends and provincial patterns. Focusing overly on the detail is perhaps less constructive.

As a final caveat, it should be noted that *per capita* spending allocations are on the whole presented for the Health and Water sectors<sup>xxi</sup>. Expecting public expenditure per person to be equal across provinces is naturally not always realistic (nor indeed desirable- something we will dwell on further in the conclusions section): Different provinces will have different service delivery costs, and exhibit different demands for investment, often independent of population levels. The per-person cost of service delivery, for instance, may be higher in less populous areas due to scale economies, implying *higher* per capita spending in such areas.

As mentioned above, some simple comparative analysis is also included looking at poverty levels by province. For this, a deprivations-based measure of childhood poverty has been used, as presented by UNICEF (2005). The indicators, originally developed for UNICEF by the University of Bristol<sup>xxii</sup>, and subsequently adapted by the former to be more accurately applicable to the Mozambican context, consist of seven measures of severe deprivation: food, safe drinking water, sanitation facilities, health, shelter, education and information. For the purposes of this paper, the three following indicators are used:

**Severe Health Deprivation (SHD)** Children under the age of five years who have never been immunised or those that have suffered from a severe episode of ARI that was not treated.

**Severe Education Deprivation (SED)** Children aged between seven and eighteen who have never been to school and are not currently attending school.

**Severe Water Deprivation (SWD)** Children under eighteen years of age who only have access to surface water for drinking, or who live in households where the nearest source of water is more than thirty minutes away.

<sup>xxi</sup> In the case of Education, expenditure per school student is used.

<sup>xxii</sup> See ‘*The Distribution of Child Poverty in the Developing World*’ by Gordon et al (2003), and UNICEF (2005) for a comprehensive discussion regarding the relative strengths and weaknesses of this approach.

It should be highlighted here that no attempt has been made here to formally establish a causal relationship- The following tables presenting the above poverty indicators alongside provincial budgetary allocations do not necessarily imply causality. The data is simply suggestive of certain linkages.

#### 4.1 Health

The Health sector in Mozambique receives its funding from multiple sources, although nowadays most funding is written onto the state budget: Recurrent expenditure (including own-generated revenues of the sector); Internal investment expenditure; External investment including the common funds of PROSAÚDE (*the sector common fund*) and the Drugs Common Fund (*Fundo Comun de Medicamentos, FCM*); and the Provincial Common Fund (*Fundo Comun Provincial, FCP*). Finally, there remain some vertical donor-financed programs that are off-budget as well as any non-declared own-generated revenues. Table H1 summarises the split of the state budget in this sector:

**Table H1: Health Sector Financing by Source (MT<sup>3</sup>)**

	2003	2004	2005	2006		2003	2004	2005	2006
Recurrent	2,014,946	2,295,147	2,501,380	2,760,706		47.2%	44.0%	34.0%	39.1%
Investment (Internal)	204,003	199,616	199,871	138,414		4.8%	3.8%	2.7%	2.0%
Investment (External)	1,070,137	1,026,682	1,198,269	1,566,560		25.1%	19.7%	16.3%	22.2%
PROSAUDE	201,571	668,061	1,606,503	1,329,645		4.7%	12.8%	21.8%	18.8%
FCM	626,366	754,235	1,574,605	813,064		14.7%	14.5%	21.4%	11.5%
FCP	154,223	270,397	276,057	453,377		3.6%	5.2%	3.8%	6.4%
<b>TOTAL</b>	<b>4,271,246</b>	<b>5,214,138</b>	<b>7,356,685</b>	<b>7,061,766</b>		<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

An in-depth analysis of each Common Fund is beyond the scope here, however it is important to mention that in the two cases of PROSAUDE and FCM, allocation of funds (managed centrally) is not conducted geographically<sup>xxiii</sup>. Indeed, it is understood that the Ministry of Health has attempted in the past to disaggregate expenditure by province here, with little success. As such, these two funds remain in the central section throughout the following analysis. The FCP, on the other hand, is distributed explicitly amongst the provinces, and will therefore be analysed in more depth below.

Dividing the picture according to where financial resources are administrated, shows the following split:

**Table H2: Health Sector Financing: Central vs Provincial**

	Allocation				Execution			
	2003	2004	2005	2006	2003	2004	2005	2006
Central	61.7%	59.5%	70.1%	58.9%	55.4%	54.8%	59.5%	56.2%
Provincial	38.3%	40.5%	29.9%	41.1%	44.6%	45.2%	40.5%	43.8%
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

In confirmation of the above analysis, the Central section here includes just that part of Recurrent Expenditure that is consumed by the central organs, while including the vast bulk of the External Component of Investment Expenditure as well as the common funds of PROSAUDE and FCM. Building on earlier discussions, to the extent that it is possible, the trick here therefore is to disaggregate this central section by province, in order to gain a more complete picture of total provincial financing. Given the relative size of this part, the importance of looking into the 'Black Box' is evident.

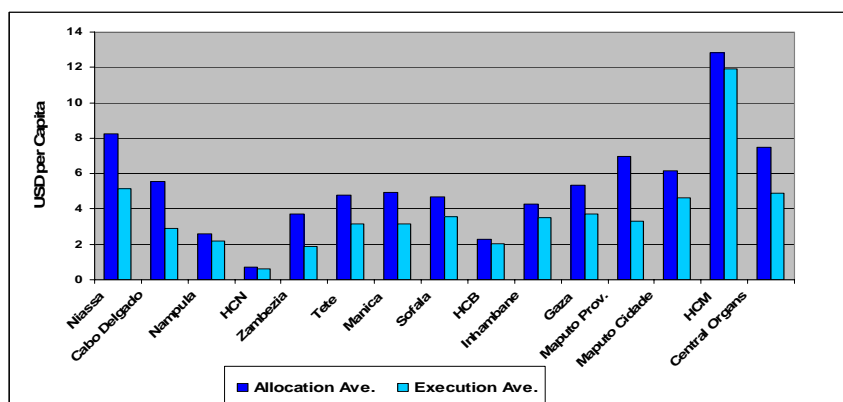
<sup>xxiii</sup> Rather, allocation is conducted by program, usually with coverage across multiple provinces.



The following table and graph present public expenditure by province:

**Table H3: USD Per Capita Total Health Spending by Province, 2003-06**

	Allocation					Execution				
	2003	2004	2005	2006	Ave.	2003	2004	2005	2006	Ave.
Niassa	4.83	9.78	9.21	9.09	8.23	3.40	5.35	4.26	7.64	5.16
Cabo Delgado	3.80	5.91	5.71	6.72	5.54	1.79	2.93	3.34	3.54	2.90
Nampula	1.65	2.50	2.60	3.54	2.57	1.34	1.81	2.44	3.09	2.17
HCN	0.62	0.80	0.68	0.74	0.71	0.43	0.68	0.59	0.72	0.61
Zambezia	3.68	3.91	3.73	3.60	3.73	1.38	1.73	1.91	2.51	1.88
Tete	3.97	5.66	3.62	5.81	4.76	2.70	3.74	3.15	3.10	3.17
Manica	4.21	4.35	5.19	5.93	4.92	2.72	3.03	2.95	3.91	3.15
Sofala	3.36	5.28	4.52	5.51	4.67	2.85	3.87	3.37	4.09	3.54
HCB	2.16	2.44	2.30	2.24	2.28	2.01	2.31	1.95	1.90	2.04
Inhambane	3.47	4.04	4.11	5.39	4.25	2.76	3.79	3.64	3.83	3.51
Gaza	5.56	5.67	4.52	5.67	5.36	3.18	3.88	3.70	4.19	3.74
Maputo Prov.	6.49	8.13	6.70	6.64	6.99	2.10	2.94	4.02	4.09	3.29
Maputo Cidade	4.73	6.33	6.41	7.08	6.14	3.54	4.83	4.76	5.43	4.64
HCM	11.28	13.93	13.13	13.05	12.85	10.41	12.71	11.95	12.48	11.89
Central Organs	5.02	6.17	10.91	7.79	7.47	3.12	4.54	5.83	6.07	4.89
<b>TOTAL</b>	<b>4.67</b>	<b>6.04</b>	<b>5.67</b>	<b>6.42</b>	<b>5.70</b>	<b>3.06</b>	<b>4.04</b>	<b>4.10</b>	<b>4.79</b>	<b>4.00</b>



For the purposes of this analysis it has been assumed that the Central Hospitals (*HCs*) serve only those provinces in which they are situated. Naturally, this is a highly debatable assumption, especially for the Central Hospital of Maputo (*HCM*) which does offer certain services that are unavailable in the rest of the country. The high per capita numbers for *HCM* are thus in large part explained by a low population (*Cidade Maputo*) denominator. Along the same lines, the central organs are assumed here to benefit all provinces, hence the low *per capita* number presented- as Table H2 showed, centrally-allocated funds on a total basis account for over half of resources.

Furthermore, in-line with the methodology outlined above, the tables attempt to provide a more complete picture of provincial financing than that of simply direct provincial flows. The central numbers presented thus represent only the remainder of central funds where it was not possible to easily disaggregate amongst provinces.

The table demonstrates clearly that on a per capita basis, health spending is exceptionally unequal across provinces, with the province of Niassa receiving approximately 2½ times the allocation of the most populous provinces of Zambezia and Nampula (excluding its Central Hospital). The mean provincial allocation rises from USD 4.16 to 5.91 over the four years analysed, while the standard deviation remains fairly constant at around USD 1.50, implying a coefficient of variation<sup>xxiv</sup> of approximately 30%.

<sup>xxiv</sup> The coefficient of variation is calculated as the standard deviation as a percent of the mean.

In order to understand these numbers more fully, we now split by Recurrent and Investment Expenditure.

**Table H4: USD Per Capita Recurrent Health Spending by Province, 2003-06**

	Allocation					Execution				
	2003	2004	2005	2006	Ave.	2003	2004	2005	2006	Ave.
Niassa	2.76	3.77	4.09	4.33	3.74	2.45	3.33	3.51	4.13	3.36
Cabo Delgado	1.61	2.15	2.50	2.60	2.22	1.26	1.97	2.49	2.55	2.07
Nampula	1.01	1.36	1.69	2.15	1.55	0.85	1.23	1.61	2.10	1.45
HCN	0.54	0.71	0.59	0.64	0.62	0.43	0.61	0.56	0.62	0.55
Zambezia	1.35	1.56	1.80	1.68	1.59	1.00	1.05	1.38	1.61	1.26
Tete	2.14	3.09	2.96	2.73	2.73	1.98	2.89	2.68	2.69	2.56
Manica	2.01	2.83	3.01	2.61	2.62	1.84	2.44	2.58	2.54	2.35
Sofala	1.96	2.68	3.11	2.90	2.66	1.88	2.61	2.64	2.84	2.49
HCB	1.60	2.17	2.08	1.94	1.95	1.55	1.98	1.89	1.90	1.83
Inhambane	2.48	3.11	3.22	3.06	2.97	2.36	3.04	3.11	3.02	2.88
Gaza	2.49	3.07	3.62	3.26	3.11	2.06	2.72	3.24	3.17	2.80
Maputo Prov.	2.81	2.98	3.54	3.32	3.16	1.90	2.35	3.46	3.27	2.75
Maputo Cidade	3.35	5.26	5.44	4.79	4.71	3.10	4.18	4.29	4.64	4.05
HCM	10.56	12.43	12.84	12.78	12.16	9.87	12.13	11.85	12.24	11.52
Central Organs	1.84	1.86	1.77	1.75	1.81	0.95	1.31	1.28	1.74	1.32
<b>TOTAL</b>	<b>2.73</b>	<b>3.51</b>	<b>3.87</b>	<b>3.80</b>	<b>3.48</b>	<b>2.39</b>	<b>3.12</b>	<b>3.46</b>	<b>3.69</b>	<b>3.17</b>

**Table H5: USD Per Capita Investment Health Spending by Province, 2003-06**

	Allocation					Execution				
	2003	2004	2005	2006	Ave.	2003	2004	2005	2006	Ave.
Niassa	2.07	6.01	5.13	4.77	4.49	0.95	2.02	0.75	3.51	1.80
Cabo Delgado	2.19	3.75	3.21	4.12	3.32	0.53	0.96	0.84	0.99	0.83
Nampula	0.64	1.14	0.91	1.39	1.02	0.49	0.57	0.83	0.99	0.72
HCN	0.08	0.09	0.10	0.10	0.09	0.00	0.08	0.04	0.10	0.05
Zambezia	2.33	2.35	1.93	1.92	2.14	0.38	0.69	0.53	0.90	0.62
Tete	1.83	2.57	0.66	3.08	2.03	0.71	0.85	0.48	0.40	0.61
Manica	2.19	1.52	2.18	3.32	2.30	0.88	0.58	0.37	1.37	0.80
Sofala	1.40	2.60	1.41	2.60	2.00	0.97	1.26	0.73	1.25	1.05
HCB	0.56	0.27	0.21	0.29	0.33	0.46	0.33	0.05	0.00	0.21
Inhambane	0.99	0.93	0.89	2.33	1.29	0.41	0.75	0.53	0.81	0.62
Gaza	3.07	2.60	0.90	2.42	2.25	1.12	1.16	0.45	1.02	0.94
Maputo Prov.	3.68	5.15	3.16	3.32	3.83	0.21	0.59	0.56	0.81	0.54
Maputo Cidade	1.38	1.07	0.98	2.29	1.43	0.45	0.65	0.47	0.78	0.59
HCM	0.72	1.50	0.29	0.26	0.69	0.53	0.58	0.10	0.24	0.37
Central Organs	1.30	0.97	1.98	1.73	1.49	1.95	1.00	0.32	0.42	0.92
<b>TOTAL</b>	<b>1.94</b>	<b>2.53</b>	<b>1.80</b>	<b>2.61</b>	<b>2.22</b>	<b>0.67</b>	<b>0.92</b>	<b>0.64</b>	<b>1.10</b>	<b>0.83</b>

As one might expect given earlier discussions, a higher per capita variance of Investment Expenditure numbers is observed here. Such significant variations in investment are largely the result of a few big earmarked donor projects (appearing in the External Component and administrated centrally) benefiting the provinces of Niassa and Cabo Delgado (for example, *Project: Reabilitação Sistema de Saúde na Zona Norte*), Manica (for example, *Project: Saúde no Corredor da Beira*) and Maputo Province (for example, *Project: Investigação da Malária em Manhica*).

The low investment execution rates are in-line with the afore-mentioned problems, with the scarcity of data undoubtedly having a significant impact here. I would therefore caution against reading too much into the execution numbers, though the generally lower investment execution than recurrent expenditure is worth noting.

A poverty dimension to the analysis is now introduced- The SHD column represents the mean average child population for the period (2003-06) weighted to reflect for the proportion of the provincial population suffering from the Severe Health Deprivation as defined above.

**Table H6: Provincial Percentages of Total Health Spending, 2003-06.**

	Mean		Allocation					Execution				
	Pop'n	SHD	2003	2004	2005	2006	Ave.	2003	2004	2005	2006	Ave.
Niassa	5.1%	8.1%	8.1%	12.4%	12.7%	11.2%	11.1%	8.4%	10.0%	8.2%	12.6%	9.8%
Cabo Delgado	8.4%	5.2%	6.4%	7.5%	7.9%	8.3%	7.5%	4.4%	5.5%	6.4%	5.8%	5.5%
Nampula	18.9%	20.3%	2.8%	3.2%	3.6%	4.4%	3.5%	3.3%	3.4%	4.7%	5.1%	4.1%
HCN	18.9%	-	1.0%	1.0%	0.9%	0.9%	1.0%	1.1%	1.3%	1.1%	1.2%	1.2%
Zambezia	19.2%	36.9%	6.2%	5.0%	5.1%	4.4%	5.2%	3.4%	3.2%	3.7%	4.1%	3.6%
Tete	7.7%	4.8%	6.6%	7.2%	5.0%	7.2%	6.5%	6.6%	7.0%	6.1%	5.1%	6.2%
Manica	6.8%	3.8%	7.0%	5.5%	7.2%	7.3%	6.8%	6.7%	5.7%	5.7%	6.5%	6.1%
Sofala	8.4%	8.1%	5.6%	6.7%	6.2%	6.8%	6.3%	7.0%	7.2%	6.5%	6.8%	6.9%
HCB	8.4%	-	3.6%	3.1%	3.2%	2.8%	3.2%	5.0%	4.3%	3.7%	3.1%	4.0%
Inhambane	7.2%	4.9%	5.8%	5.1%	5.7%	6.7%	5.8%	6.8%	7.1%	7.0%	6.3%	6.8%
Gaza	6.9%	2.3%	9.3%	7.2%	6.2%	7.0%	7.4%	7.8%	7.2%	7.1%	6.9%	7.3%
Maputo Prov.	5.5%	0.9%	10.9%	10.3%	9.2%	8.2%	9.7%	5.2%	5.5%	7.7%	6.8%	6.3%
Maputo Cidade	6.0%	4.4%	7.9%	8.0%	8.9%	8.7%	8.4%	8.7%	9.0%	9.1%	9.0%	9.0%
HCM	6.0%	-	18.9%	17.7%	18.1%	16.1%	17.7%	25.6%	23.7%	23.0%	20.6%	23.2%
Central Organs	-	-	-	-	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Here it is important to highlight that provincial numbers have been re-weighted to include funds administrated centrally. This therefore assumes an equal spending of the remaining central resources across provinces.

Again, comparing with population, significant discrepancies can be seen, discrepancies that are aggravated when comparing with the Severe Health Deprivation measure. The provinces of Zambezia and Maputo Province merit particular mention.

As a final comment, it is interesting to consider the provincial split of the FCP, as this is the one area in which the sector enjoys full control over resource allocation and where allocation is conducted explicitly by province. While not representing much of total sector financing (see Table H1), it does therefore provide a unique insight into the sector preferences and perceived provincial needs. A formula with the following provincial (*weighted*) variables is used to allocate resources:

- Number of Health Posts (40%),
- Poverty Head Count (10%),
- Population Density Measure (5%),
- Population (25%),
- Number of hospital beds (20%).

While a mix of health and non-health specific indicators is used therefore, there is a slight skew (60%) toward the former. Importantly here, the reader will also note that there is a positive correlation between funds allocated and the chosen development indicators. The reasoning for this is that funds are employed to maintain the status quo: A big health network requires more investment. The resulting allocation is as follows:

**Table H7: Allocation of the FCP, 2003-06**

	Allocation				
	2003	2004	2005	2006	Ave.
Niassa	4.5%	5.0%	5.1%	5.6%	5.0%
Cabo Delgado	7.6%	7.6%	12.8%	10.6%	9.6%
Nampula	27.4%	24.1%	24.4%	19.6%	23.9%
HCN	0.0%	0.0%	0.0%	0.0%	0.0%
Zambezia	17.4%	15.2%	14.8%	17.0%	16.1%
Tete	1.6%	1.5%	3.3%	1.7%	2.0%
Manica	4.0%	2.7%	1.1%	9.7%	4.4%
Sofala	11.2%	10.4%	12.0%	11.1%	11.1%
HCB	0.0%	0.0%	0.0%	0.0%	0.0%
Inhambane	5.3%	8.0%	7.7%	7.2%	7.1%
Gaza	8.9%	6.8%	5.0%	7.1%	6.9%
Maputo Prov.	2.9%	5.1%	6.3%	5.0%	4.8%
Maputo Cidade	9.4%	4.4%	7.6%	5.4%	6.7%
HCM	0.0%	9.3%	0.0%	0.0%	2.3%
Central Organs	-	-	-	-	-
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

As the table shows, provincial allocations are indeed far more reflective of provincial needs as defined simplistically by population and the SHD. The fact that final state budget allocations as presented above differ from these weightings, in some cases severely, thus provides further evidence that under the current system, resources are not being allocated in the most equitable way.

#### 4.2 Education

Turning attention now to the education sector, the same broad format as above will be followed. Financing of this sector can be summarised as originating from the state budget and the sector Common Fund: FASE. For the first time in 2006, FASE was written onto the state budget.

**Table E1: Education Sector Financing by Source (MT<sup>3</sup>)**

	2003	2004	2005	2006		2003	2004	2005	2006
	Recurrent	3,329,992	4,086,627	4,838,021		5,714,983		66.2%	64.3%
Investment (Internal)	314,370	266,227	423,650	283,770		6.2%	4.2%	5.9%	3.1%
Investment (External)	1,047,815	1,515,172	1,322,454	1,616,173		20.8%	23.8%	18.3%	17.8%
FASE	339,997	486,257	633,867	1,474,282		6.8%	7.7%	8.8%	16.2%
<b>TOTAL</b>	<b>5,032,174</b>	<b>6,354,283</b>	<b>7,217,992</b>	<b>9,089,208</b>		<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

As in the case of the health sector, the education common fund is also managed centrally, though in the very recent past there has been a general move underway to decentralise parts of it. The Education sector's program of 'Accelerated Construction' of school classrooms and their associated infrastructures (such as houses for the teachers) was, for example, decentralised in 2007- execution is now the responsibility of the Provincial Directorate. While the implications of this in practice are that funds are transferred directly from the CUT to the account of the Provincial Directorate (or indeed straight to the account of the creditor), thus bypassing the central ministry, the decision regarding provincial allocations has remained largely unchanged- based broadly on the sector PES and the subsequent Plan of Activities (*Plano de Actividades, PdA*).

Dividing the picture according to where financial resources are managed and controlled, shows the following split:

**Table E2: Education Sector Financing: Central vs Provincial**

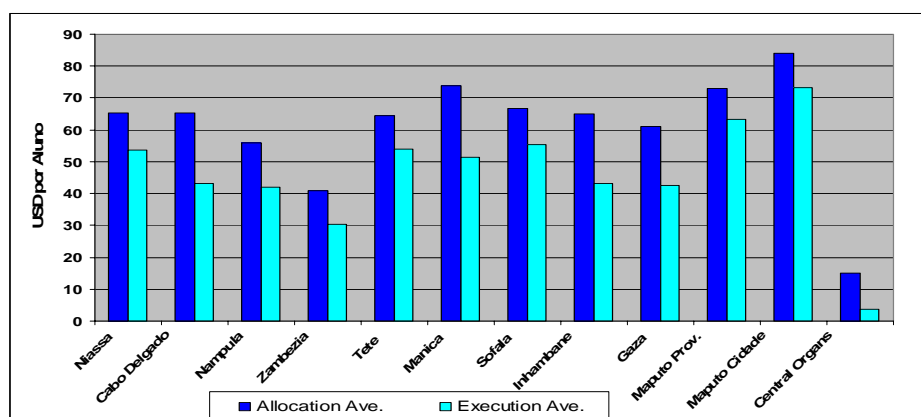
	Allocation				Execution			
	2003	2004	2005	2006	2003	2004	2005	2006
Central	28.8%	28.0%	27.6%	32.3%	7.1%	6.6%	7.7%	7.2%
Provincial	71.2%	72.0%	72.4%	67.7%	92.9%	93.4%	92.3%	92.8%
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

In confirmation of the above analysis, the Central section here includes just that part of Recurrent Expenditure that is consumed by the central organs, while including the vast bulk of the External Component of Investment Expenditure and FASE. Relative to the Health Sector, funds managed centrally here can be seen to represent a far lower proportion of total financing, largely because of the absence of the common funds in the health sector and the high proportion of total education financing going to (decentralised) recurrent expenditures.

Turning now to an breakdown by province, the following table is presented:

**Table E3: USD Per School Student Total Education Spending by Province, 2003-06**

	Allocation					Execution				
	2003	2004	2005	2006	Ave.	2003	2004	2005	2006	Ave.
Niassa	57.99	57.28	66.25	79.95	65.37	42.14	54.99	55.94	61.10	53.54
Cabo Delgado	58.37	70.83	66.38	65.06	65.16	28.60	42.50	51.28	49.89	43.07
Nampula	56.79	47.91	61.77	57.73	56.05	31.49	42.23	50.43	44.38	42.13
Zambezia	37.55	37.06	44.75	44.39	40.94	24.43	24.80	34.07	38.45	30.44
Tete	56.46	63.90	65.46	71.98	64.45	42.60	59.69	52.45	61.12	53.96
Manica	56.15	67.98	74.30	96.69	73.78	39.39	50.50	56.64	59.30	51.46
Sofala	57.15	62.93	73.10	73.90	66.77	45.45	56.39	57.75	61.90	55.37
Inhambane	59.45	64.76	77.56	58.74	65.13	32.44	44.42	47.95	48.30	43.28
Gaza	43.90	44.66	85.99	70.00	61.14	33.18	42.76	47.28	47.60	42.70
Maputo Prov.	66.49	65.20	81.90	78.09	72.92	50.40	61.67	71.04	70.63	63.43
Maputo Cidade	67.60	77.27	87.51	104.29	84.17	57.43	74.56	79.69	81.23	73.23
Central Organs	6.04	19.84	13.49	21.20	15.14	2.78	3.31	4.37	4.16	3.65
<b>TOTAL</b>	<b>53.98</b>	<b>56.41</b>	<b>67.82</b>	<b>67.91</b>	<b>61.53</b>	<b>36.43</b>	<b>46.58</b>	<b>52.01</b>	<b>53.36</b>	<b>47.09</b>



In-line with the methodology outlined above, the table attempts to provide a more complete picture of provincial financing than that of simply direct provincial flows. The central numbers presented thus represent only the remainder of centrally-administrated funds where it was not possible to accurately disaggregate by province.

The table demonstrates clearly that on a per school student basis, education spending too is exceptionally unequal across provinces, once again with the most populous provinces consistently being disfavoured. Using the Coefficient of Variance as a measure of dispersion,

we see that deviation from the mean, however, is much lower than that of the Health sector, averaging in the high teens.

We now split by Recurrent and Investment Expenditure in order to gain a fuller understanding of these patterns.

**Table E4: USD Per School Student Recurrent Education Spending by Province, 2003-06**

	Allocation					Execution				
	2003	2004	2005	2006	Ave.	2003	2004	2005	2006	Ave.
Niassa	41.49	53.03	56.48	60.96	52.99	39.76	52.36	54.54	60.56	51.81
Cabo Delgado	30.82	43.52	49.65	48.97	43.24	28.22	41.92	49.49	48.87	42.12
Nampula	33.75	42.39	48.75	43.81	42.17	31.35	40.89	48.01	43.56	40.95
Zambezia	26.36	25.89	34.60	37.52	31.09	24.43	24.78	33.28	36.65	29.79
Tete	41.74	58.23	50.76	60.97	52.93	40.23	57.83	49.87	59.19	51.78
Manica	39.52	51.03	55.43	59.19	51.29	38.19	49.34	53.79	58.84	50.04
Sofala	42.56	52.98	55.01	60.95	52.87	42.09	52.74	53.72	60.88	52.36
Inhambane	31.63	42.21	46.83	47.65	42.08	31.40	42.17	46.53	47.31	41.85
Gaza	33.22	42.30	45.99	46.83	42.09	32.41	41.58	45.39	46.78	41.54
Maputo Prov.	55.15	62.95	70.55	70.93	64.89	49.94	60.30	70.10	70.63	62.74
Maputo Cidade	56.13	74.92	79.96	79.99	72.75	56.06	72.67	77.71	79.91	71.59
Central Organs	2.54	2.70	3.38	3.28	2.98	2.09	2.56	3.32	3.25	2.80
<b>TOTAL</b>	<b>37.18</b>	<b>46.34</b>	<b>51.11</b>	<b>52.75</b>	<b>46.85</b>	<b>35.45</b>	<b>45.17</b>	<b>50.09</b>	<b>52.30</b>	<b>45.75</b>

**Table E5: USD Per School Student Investment Education Spending by Province, 2003-06**

	Allocation					Execution				
	2003	2004	2005	2006	Ave.	2003	2004	2005	2006	Ave.
Niassa	16.51	4.26	9.77	19.00	12.38	2.37	2.63	1.40	0.54	1.74
Cabo Delgado	27.54	27.31	16.74	16.08	21.92	0.38	0.58	1.80	1.02	0.95
Nampula	23.04	5.53	13.02	13.92	13.88	0.14	1.34	2.42	0.82	1.18
Zambezia	11.19	11.17	10.15	6.88	9.85	0.00	0.02	0.78	1.80	0.65
Tete	14.72	5.67	14.70	11.01	11.52	2.37	1.85	2.58	1.93	2.18
Manica	16.63	16.95	18.87	37.49	22.48	1.20	1.16	2.85	0.45	1.42
Sofala	14.59	9.95	18.10	12.95	13.90	3.36	3.65	4.03	1.02	3.01
Inhambane	27.82	22.55	30.73	11.09	23.05	1.04	2.25	1.41	0.99	1.42
Gaza	10.68	2.37	40.00	23.17	19.05	0.76	1.18	1.89	0.82	1.16
Maputo Prov.	11.34	2.25	11.35	7.16	8.03	0.45	1.37	0.94	0.00	0.69
Maputo Cidade	11.47	2.35	7.55	24.30	11.42	1.36	1.88	1.97	1.32	1.63
Central Organs	3.50	17.15	10.10	17.92	12.17	0.70	0.75	1.05	0.91	0.85
<b>TOTAL</b>	<b>16.80</b>	<b>10.07</b>	<b>16.70</b>	<b>15.16</b>	<b>14.68</b>	<b>0.98</b>	<b>1.41</b>	<b>1.91</b>	<b>1.07</b>	<b>1.34</b>

The substantial contribution that Recurrent Expenditure makes to total sector financing (*in confirmation of Table E1*) is striking here. Moreover, once again variations in the investment section are high, with the coefficient of variation for the allocation of investment expenditure averaging almost 60% over the four year time period.

Particular problems were encountered in obtaining execution rates for investment expenditure, hence the low numbers here, and I would therefore again caution against reading too much into the numbers.

As before, a poverty dimension to the analysis is now introduced. The SED column represents the mean average child population for the period (2003-06) weighted to reflect for the proportion of the provincial population suffering from the Severe Education Deprivation as defined above.

**Table E6: Provincial Percentages of Total Education Spending, 2003-06.**

	Mean School Students	SED	Allocation					Execution				
			2003	2004	2005	2006	Ave.	2003	2004	2005	2006	Ave.
Niassa	5.0%	7.9%	9.4%	8.7%	8.4%	10.0%	9.1%	9.9%	9.9%	9.3%	9.8%	9.7%
Cabo Delgado	7.6%	8.5%	9.4%	10.7%	8.5%	8.1%	9.2%	6.7%	7.7%	8.5%	8.0%	7.7%
Nampula	15.1%	26.1%	9.2%	7.3%	7.9%	7.2%	7.9%	7.4%	7.6%	8.3%	7.1%	7.6%
Zambezia	18.8%	26.5%	6.1%	5.6%	5.7%	5.5%	5.7%	5.7%	4.5%	5.6%	6.2%	5.5%
Tete	7.4%	9.1%	9.1%	9.7%	8.3%	9.0%	9.0%	10.0%	10.8%	8.7%	9.8%	9.8%
Manica	7.2%	5.0%	9.1%	10.3%	9.5%	12.1%	10.2%	9.2%	9.1%	9.4%	9.5%	9.3%
Sofala	7.9%	8.2%	9.2%	9.5%	9.3%	9.2%	9.3%	10.6%	10.2%	9.6%	9.9%	10.1%
Inhambane	8.4%	3.5%	9.6%	9.8%	9.9%	7.3%	9.2%	7.6%	8.0%	7.9%	7.7%	7.8%
Gaza	8.1%	3.3%	7.1%	6.8%	11.0%	8.7%	8.4%	7.8%	7.7%	7.8%	7.6%	7.7%
Maputo Prov.	7.3%	1.1%	10.8%	9.9%	10.4%	9.8%	10.2%	11.8%	11.1%	11.8%	11.3%	11.5%
Maputo Cidade	7.2%	0.7%	10.9%	11.7%	11.1%	13.0%	11.7%	13.4%	13.4%	13.2%	13.0%	13.3%
Central Organs	-	-	-	-	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

Here again it is important to highlight that provincial numbers have been re-weighted to include funds administrated centrally, therefore assuming an equal spending of the remaining central resources across provinces.

From this analysis, the same message emerges of no readily apparent correlation between severe educational deprivation and state budgetary allocations. Of particular note are the provinces of Nampula and Zambezia, accommodating an average of 19% and 15% of Mozambican school students respectively, and with in both cases approximately 26% of children suffering from Severe Educational Deprivation (*2<sup>nd</sup> highest only to Niassa*), they consistently receive under 10% of total sector financing.

#### 4.3 Water

The water sector in Mozambique is characterised by the plethora of disparate actors involved in it<sup>xxv</sup>. The Ministry of Public Works (*Ministério das Obras Públicas e Habitação, MOPH*) has authority for public works and the management of water resources, and the National Directorate of Water (*Direcção Nacional de Água, DNA*) is the organ of the MOPH responsible for the water sector. In addition, the water sector of Mozambique comprises of numerous quasi-independent and subordinate institutions.

At the provincial level, the Provincial Directorate of Public Works (*Direcções Provincias das Obras Públicas e Habitação, DPOPH*), and within this, the Department of Water (*Departamento de Água e Saneamento, DAS*) is responsible for the water sector.

While the DNA is the body primarily responsible for the water sector in Mozambique, importantly it is not, in itself, a budgetary unit<sup>xxvi</sup>. That is, it does not explicitly receive an allocation. Rather, funds are allocated from the state budget to the MOPH who, based on execution rates from the previous year and variables such as updated staffing information in the case of Recurrent Expenditure<sup>xxvii</sup>, allocate an amount to the DNA. The DNA then allocates funds for investment expenditure<sup>xxviii</sup> internally to its various departments, including the Rural Water Department (*Departamento de Água Rural, DAR*) and the Urban Water Department (*Departamento de Água Urbana, DAU*).

<sup>xxv</sup> See *Fundamentação da Proposta do Sector de Águas para o CFMP 2008-10, MOPH / DNA* for a detailed commentary on this.

<sup>xxvi</sup> In e-SISTAFE terminology, budgetary units are labelled 'Unidade Gestora Beneficiária' (UGBs).

<sup>xxvii</sup> Techniques thus broadly in-line with those used by DNO.

<sup>xxviii</sup> Responsibility for the management of recurrent expenditure at the central level is managed is not devolved to the individual departments.

For the purposes of this exercise, ascertaining total provincial financing is thus very tricky. Moreover, with a few exceptions, the internal departments cited above manage and allocate their resources by project- projects that in the vast majority of cases cover multiple provinces. In addition, with regard to the External Investment Component, the sector suffers more than most from a lack of coordination of donor-financed projects. Indeed, even those projects captured onto the budget, often have no direct involvement by DNA.

### **Methodology**

Given this complexity, any analysis of the water sector will not reach the same level of sophistication as that of other sectors- capturing the whole picture with regard to provincial financing is far from easy. The approach used here is to combine the following three sources of investment financing:

- (i) Direct transfers ('*Âmbito Provincial*') to the DPOPHs.
- (ii) Total investment allocations (Internal and External Components) of the Rural Water Department (*Departamento de Água Rural, DAR*) within the DNA;
- (iii) Total investment allocations of the Urban Water Department (*Departamento de Água Urbana, DAU*) within the DNA.

Given reliable data constraints, information regarding the centrally-administrated investment (*parts (ii) and (iii)*) is presented just for the years 2005 and 2006.

Following this (modified) methodology, we start by presenting investment allocations of state budget resources that were transferred directly to the DPOPHs ('*Âmbito Provincial*'):

**Table W1: USD per capita Direct Transfers of Investment Expenditure to DPOPHs, 2003-06**

	Allocation					Execution				
	2003	2004	2005	2006	Ave.	2003	2004	2005	2006	Ave.
Niassa	0.00	0.46	2.27	1.09	0.95	0.00	0.32	1.49	1.09	0.73
Cabo Delgado	0.04	0.12	0.07	0.08	0.08	0.01	0.07	0.07	0.08	0.06
Nampula	0.00	0.09	0.16	0.02	0.07	0.00	0.08	0.13	0.02	0.06
Zambezia	0.00	0.08	0.00	0.04	0.03	0.00	0.02	0.00	0.04	0.01
Tete	0.16	0.28	0.14	0.18	0.19	0.13	0.26	0.10	0.18	0.17
Manica	0.14	0.18	0.36	0.19	0.22	0.11	0.14	0.22	0.19	0.17
Sofala	0.10	0.19	0.20	0.09	0.14	0.09	0.19	0.17	0.09	0.14
Inhambane	0.01	0.29	0.19	0.05	0.14	0.01	0.26	0.12	0.05	0.11
Gaza	0.07	0.24	0.31	0.09	0.18	0.04	0.20	0.28	0.09	0.15
Maputo Prov.	0.07	0.12	0.12	0.07	0.10	0.03	0.11	0.10	0.07	0.08
Maputo Cidade	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00	0.00
<b>TOTAL</b>	<b>0.04</b>	<b>0.16</b>	<b>0.25</b>	<b>0.12</b>	<b>0.14</b>	<b>0.03</b>	<b>0.13</b>	<b>0.18</b>	<b>0.12</b>	<b>0.11</b>

As mentioned above, not all funds transferred to the DPOPHs are necessarily allocated to the water sector, but unfortunately organised accounts of amounts allocated to the respective DASs do not exist. Nevertheless, the variations shown in the table are indicative of large provincial discrepancies in the water sector. Interestingly, the MOPH (and the DPOPH of Niassa) were unable to justify the huge amounts going to the province in 2005 and 2006. Indeed the sector and provincial plans certainly do not propose such a pattern, pointing toward the strong possibility that other, perhaps political, factors came into play at the time of the final allocation decision.

As far as Investment (within the DNA) is concerned, as mentioned above, various departments receive allocations, though for the purposes of this analysis, the two principal departments of Rural and Urban Water are considered:



**Table W2: Centrally-administrated Investment Expenditure by Department, 2005-06 (MT<sup>3</sup>)**

	Allocation		Execution	
	2005	2006	2005	2006
DAR	199,252	214,684	41,046	68,699
DAU	204,481	217,033	16,563	26,044

The split between the two internal departments is thus very equal, though the picture is incomplete given the gradual devolution of urban water responsibility to FIPAG (*O Fundo de Investimento e Património do Abastecimento de Água*). FIPAG, set up by the Government of Mozambique in 1998, is effectively a fund through which external donor funds are channelled to private sector companies who are contracted to complete various works associated with urban water. Responsibility is gradually being devolved from DAU to FIPAG, with the majority of large urban centres ('*ciudades*' as opposed to the smaller '*villas*') now under the latter's jurisdiction. The amounts of money channelled through FIPAG are huge in comparison (1.31 and 1.66 USD per capita in 2005 and 2006 respectively).

**Table W3: USD per capita Centrally-Administrated Investment Expenditure in the Water Sector, by Province 2005-06**

	Allocation			Execution		
	2005	2006	Ave.	2005	2006	Ave.
Niassa	2.08	2.30	2.19	1.35	0.69	1.02
Cabo Delgado	1.26	1.41	1.34	0.83	0.43	0.63
Nampula	0.61	0.67	0.64	0.37	0.19	0.28
Zambezia	0.47	0.29	0.38	0.21	0.07	0.14
Tete	1.93	0.55	1.24	1.22	0.20	0.71
Manica	1.03	0.52	0.78	0.58	0.19	0.38
Sofala	0.73	0.32	0.52	0.46	0.15	0.31
Inhambane	1.27	0.65	0.96	0.44	0.04	0.24
Gaza	0.63	0.71	0.67	0.47	0.04	0.26
Maputo Prov.	1.27	1.24	1.25	0.00	0.00	0.00
Maputo Cidade	0.00	0.87	0.43	0.00	0.00	0.00
Central Organs	0.56	1.10	0.83	0.72	0.23	0.48
<b>TOTAL</b>	<b>1.46</b>	<b>1.84</b>	<b>1.65</b>	<b>1.21</b>	<b>0.40</b>	<b>0.80</b>

To be clear, the above numbers attempt to capture the totality (*ie Internal and External Components*) of centrally-administrated DNA investment expenditure in the two departments of Rural and Urban Water.

As with other sectors, allocation of the External Component of Investment is more often than not conducted on a per project basis. As such, any provincial analysis requires the distribution of project allocation and execution by province. For certain projects this is clear- the case of the Rehabilitation of Small Water Supply Systems<sup>xxix</sup>, for example, is well known to have targeted the towns of Namaacha, Quissico, Vilanculos, and Massinga in 2005-06, thus benefiting the provinces of Maputo and Inhambane. Earmarked projects to Tete also exist, as well as funding of the Northern provinces of Mozambique (through the project *Água e Saneamento Nampula e Niassa, ASNANI*). Such projects are, however, the exception rather than the norm, making the territorial allocation of the majority of resources particularly unclear. Nevertheless, the results presented above are indicative of the earlier trends: Centrally-administrated investment spending seriously outweighs that transferred directly to the provinces (as presented in Table W1), and there is a largely unequal per capita geographical distribution of financing.

<sup>xxix</sup> Project ABA 1987/004: Reabilitação PSAA, financed by the World Bank and ASAS in 2005.

Introducing now the comparison with the Severe Deprivation indicator for water (SWD), the following provincial patterns are observed:

**Table W4: Provincial Percentages of Total Water Spending, 2005-06**

	Mean Pop'n	SWD	Allocation			Execution		
			2005	2006	Ave.	2005	2006	Ave.
Niassa	5.1%	4.8%	18.4%	24.1%	21.3%	22.8%	34.6%	28.7%
Cabo Delgado	8.4%	8.8%	11.2%	14.8%	13.0%	14.1%	21.5%	17.8%
Nampula	18.9%	18.3%	5.4%	7.0%	6.2%	6.2%	9.4%	7.8%
Zambezia	19.2%	24.0%	4.2%	3.0%	3.6%	3.5%	3.4%	3.4%
Tete	7.7%	9.8%	17.1%	5.8%	11.4%	20.5%	9.9%	15.2%
Manica	6.8%	6.8%	9.1%	5.5%	7.3%	9.7%	9.5%	9.6%
Sofala	8.4%	7.8%	6.5%	3.4%	4.9%	7.8%	7.7%	7.8%
Inhambane	7.2%	8.0%	11.3%	6.9%	9.1%	7.5%	1.9%	4.7%
Gaza	6.9%	8.7%	5.6%	7.4%	6.5%	7.9%	2.0%	5.0%
Maputo Prov.	5.5%	2.7%	11.2%	13.0%	12.1%	0.0%	0.0%	0.0%
Maputo Cidade	6.0%	0.4%	0.0%	9.1%	4.6%	0.0%	0.0%	0.0%
Central Organs	-	-	-	-	-	-	-	-
<b>TOTAL</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>

The lack of any clear correlation between provincial needs as defined by the SWD and budgetary allocations is once again observed.

## 5 Conclusions and Recommendations

It is true that provincial per capita equality in budget financing is not necessarily entirely desirable- investment needs will not always correlate with population or indeed certain broad development indicators<sup>xxx</sup>: Geographical land areas and the associated population densities of provinces inevitably exert significant influences on the costs of investment, and these would need to be considered in some detail for a comprehensive evaluation. Nevertheless, the observed provincial patterns as presented above are strongly indicative of an overly unequal territorial distribution of resources, and thus of the need to propose tools that might act to redress some of the imbalances.

It is also clear from the above discussions that final provincial allocations of the state budget are not always arrived at through a systematic and focused way. This has led to substantial territorial inequalities in per capita financing, with the more populous provinces often losing out to smaller provinces such as Niassa.

In the case of Recurrent Expenditure, the current methodology of extrapolating the budgetary execution of the previous year means that past provincial patterns, fair or unfair, are on the whole maintained and perpetuated. Based on their plans and budget proposals, sectors and provincial authorities are, of course, free to recommend deviations from these initial ceilings, and indeed often do with some success. However, such successes are in practice minimal- budgetary resources in Mozambique are severely constrained, meaning that any increase in one province or sector necessarily implies a corresponding reduction in another. As such, in the elaboration of their plans, sectors and their Provincial Directorates tend to work broadly within the initial budgetary limits, proposing at most incremental increases, rather than any significant steps away from the status quo.

With respect to Investment Expenditure, while the picture is more complex, the same basic themes emerge. Investment plans and budget proposals are written by sectors, and while one can debate the equity and efficacy of one or another of the indicators used, the fact is that

<sup>xxx</sup> Investment required to upgrade school classrooms in need of repair, for example, will not necessarily be exactly in-line with the SED indicator outlined above.

final budgetary allocations do not completely reflect sector preferences. One might argue that the key really relates to in whose hands the power now lies with regard to the final decision: Budgetary planning continues to happen by sectors and their provincial directorates, however the decision regarding the *final allocation* is often outside of their control. Sectors control somewhat proposals, but not final allocation.

Final sectoral and provincial limits are, in theory, arrived at through a fairly pragmatic process with all stakeholders' views taken into consideration. Given the above findings, the weight assigned to these views is perhaps the more interesting question, and one that is of a more political nature.

In the case of the *Âmbito Provincial*, the provincial government certainly now holds much power at its discretion: in approving investment projects and in the final budgetary negotiations in August<sup>xxxi</sup>. For centrally-administrated funds, donors continue to impose their preferences onto sectors, and with the small amount left for the sector to allocate at its discretion, commitments such as the counterparty funds have to be paid. A substantial part of allocation is thus predetermined.

Given this exogeneity of state budget allocations, one might hypothesise the use by line-ministries of funds over which they do exert control to shift budgetary allocations into a pattern more in-line with their preferences, and thus correcting for perceived provincial imbalances. In reality, this rarely happens for two simple reasons. Firstly, amounts over which sectors enjoy full control are relatively small (see for example the FCP in health). Secondly, there is the question of timing: Planning happens at the same time, for all sector funds. The case of FASE, the Education common fund provides an informative example here: Up until 2006, FASE remained off-budget, and the sector therefore was able to use the fund to allocate resources to areas it felt were underserved by the budget. Since 2006 however, FASE has been written onto the budget, and the sector is thus forced to reveal its preferences at the same time as other allocation decisions are being made, making such a course of action no longer plausible.

To illustrate this point further, the following table shows direct provincial investment allocations (*Âmbito Provincial*) on the left hand side, and then total allocations, including some of the centrally-administrated expenditure (*Âmbito Central*) on the right, for the Health sector.

	Excluding					Including				
	2003	2004	2005	2006	Ave.	2003	2004	2005	2006	Ave.
Niassa	0.41	2.10	1.08	0.85	1.11	2.07	6.01	5.13	4.77	4.49
Cabo Delgado	1.15	1.18	0.14	1.13	0.90	2.19	3.75	3.21	4.12	3.32
Nampula	0.13	0.33	0.11	0.45	0.25	0.64	1.14	0.91	1.39	1.02
HCN	0.08	0.09	0.10	0.10	0.09	0.08	0.09	0.10	0.10	0.09
Zambezia	0.18	0.29	0.12	0.00	0.15	2.33	2.35	1.93	1.92	2.14
Tete	1.14	1.49	0.28	2.87	1.44	1.83	2.57	0.66	3.08	2.03
Manica	1.27	0.17	1.24	1.40	1.02	2.19	1.52	2.18	3.32	2.30
Sofala	0.36	0.92	0.41	1.40	0.77	1.40	2.60	1.41	2.60	2.00
HCB	0.19	0.16	0.21	0.29	0.21	0.56	0.27	0.21	0.29	0.33
Inhambane	0.74	0.24	0.21	1.41	0.65	0.99	0.93	0.89	2.33	1.29
Gaza	0.98	1.00	0.36	1.44	0.94	3.07	2.60	0.90	2.42	2.25
Maputo Prov.	1.28	2.26	1.86	2.12	1.88	3.68	5.15	3.16	3.32	3.83
Maputo Cidade	0.21	0.23	0.22	1.50	0.54	1.38	1.07	0.98	2.29	1.43
HCM	0.14	0.29	0.29	0.26	0.24	0.72	1.50	0.29	0.26	0.69
<i>Central Organs</i>	2.27	2.07	2.69	2.30	2.33	1.30	0.97	1.98	1.73	1.49

The question here is whether the sector uses its centrally-administrated resources to 'even-out' perceived funding imbalances. Superficially, the table shows no apparent flattening of

<sup>xxxi</sup> Before the Budget negotiations in August, the Provincial Government will have approved the revised provincial PES.

provincial allocations- The coefficient of variation, while decreasing slightly from a situation of excluding centrally-administrated funds to a situation of including them, does not change significantly. The same findings were found in the Education and Water sectors.

### **Recommendations:**

Given the above analysis, three (not mutually exclusive) next steps are recommended:

#### **1. Inclusion of an explicitly provincial dimension into the CFMP.**

We have seen that final provincial state budget allocations are, on the whole, not arrived at deliberately- that is, they are arrived at indirectly, often simply *implicit* as part of sector budget programs.

The most recent CFMP Methodology (2009-11) envisages a key role for provincial authorities (p.5), citing not only the chance to harmonise central and provincial plans to avoid duplication, but also to increase provincial participation in budgetary planning. This will involve training of provinces and visits to increase sense of involvement. However, the CFMP in its current form does not give explicit consideration to provincial allocations- notably in the centrally-administrated resources section. Planning and budget proposals are conducted on a program basis, with provincial allocations resulting via this. Provincial allocations are thus implied rather than targeted explicitly.

There is thus a need to incorporate a provincial dimension into the CFMP.

To be clear, the proposal here is not to change the current methodology of budgetary planning. Rather, the idea would be to integrate into the CFMP a tool to show the implications of sector/program spilt for provinces. At the very least, this will have the effect of increasing transparency, drawing attention to the impact of allocation decisions on provincial patterns, and introducing into the dialogue some provincial consideration. At the most, it might encourage sectors and planners to incorporate in a more concrete way provincial planning as part of CFMP.

This would require the construction of a simple model linked to sector budget proposals as presented by the current CFMP methodology annexes. This could be done either by the sector at the time of planning (*ie introduce a new CFMP table to be filled in by the sector*), or by the MPD/DNO having received sector plans. It is the strong opinion of the author that the latter would initially make more sense, implying a far lower level of change needed.

#### **2. Extraordinary one-off adjustment.**

With the system of budgetary allocation as it stands, broad provincial patterns are maintained and perpetuated. For any significant change to occur there is an implied need for a one-off correcting adjustment to equalise the base off which the current system works.

This would obviously not be a small undertaking, and the form it would take would have to be a matter for further discussion. Nevertheless, a donor-financed fund, created with the aim of explicitly targeting underserved provinces (à la FCP in Health for example) over the course of a few years could help to rebalance the base of allocations to the provinces.

There is no reason why this could not happen in parallel with the functioning of the current system.

It is recommended, therefore, that work is undertaken to analyse what, in financial terms, such an adjustment would require in terms of diverted (or new) resources. This could be done within the MPD. With this context, discussions, involving representatives from the donor community as well as the MPD, should take place to consider the forms and respective viabilities that this could take.

### **3. External Component of Investment: Harmonisation of Preferences.**

The External Component of Investment often represents a significant part of total sector financing. Despite a recent push, as shown above, the final allocation of this component of investment often strays markedly from desired levels as defined as the Sector Investment Plan.

Sector investment plans should be followed more closely by donors in their (territorial) allocation of resources. Greater effort should be made to harmonise donor preferences with those of the sector, as this will ensure a more equitable allocation of resources.

## **6 Bibliography**

*Childhood Poverty in Mozambique: A Situation and Trends Analysis, 2006.*  
UNICEF, Mozambique.

*Fundamentação da Proposta do Sector de Águas para o CFMP 2008-10.*  
Ministério das Obras Públicas: Direcção Nacional de Águas.

*Integrating Reporting of PRS and Budget Implementation: The Mozambican Case*  
De Renzio (Overseas Development Institute) and Sulemane (Ministry of Planning and Development, Mozambique), 2005.

*Metodologia para a Elaboração das Propostas do Cénario Fiscal de Médio Prazo, 2009-2011.*  
Ministério da Planificação e Desenvolvimento, República de Moçambique.

*The Political Economy of the Budget in Mozambique, 2004*  
Hodges and Tibana, 2005