



Support Program for Economic and Enterprise Development (SPEED)

5 November 2012

Absorption Capacity Critical Vehicle for Growth

Summary

Mozambique will soon be a world class exporter of natural gas and mineral resources. This should be a blessing but dangers lie ahead. The country may well try to use the resources through budget expenditures as they are mobilized. While Mozambique urgently needs to improve the quantity and quality of services provided, this cannot be accomplished by increased spending alone if institutional and absorption capacities are not increased.

An automatic and precipitous increase in budget expenditures resulting from higher levels of revenue from non-renewable sectors can have negative impacts – this is the case in most countries that rely on non-renewable resources exports. Signs already exist that Mozambique's institutional problems are not only due to lack of financial resources. Public expenditure relative to GDP more than doubled between 2003 and 2011 in the education and health sectors. However, the Human Development Index shows that Mozambique performance has improved somewhat, but not proportionately to the increased spending. Indeed, these sectors have lost efficiency while gaining funding. This strong sign that institutional capacities have reached their limits in these two sectors means that more financial resources will not generate more and better quality services; absorption is already a reality.

The policy response should combine reforms and capacity building first and, only then, entails more financial resources. This mixed policy response should have 4 components. The first should set a strategy and policies that allow the civil service to recruit some of the best Mozambican specialists. They would form a key cadre of technicians who would enable the administration to design, implement, and monitor reforms to modernize and simplify processes. The second component entails reform of the civil service aiming at modernizing and simplifying systems, improving and enhancing efficiency and efficacy in the provision of services, and definition of policies. The third involves increased investment in the education (including vocational education) and health sectors to enable higher provision of services with greater quality, better responding to demands. The last and fourth component includes recruiting some of the best foreign specialists that would bring to Mozambique best international practices in terms of policy making and implementation in an environment characterized by resource boom, growth and development.