Board Meeting of December 18, 1997
Statement by Matthias Meyer

Mozambique - Country Assistance Strategy

1. We have mixed feelings about the proposed Country Assistance Strategy for Mozambique. We concur with the strategy and priorities laid out in the document, but believe that an opportunity was missed to take full advantage of the Country Assistance Review (CAR) in the elaboration of the CAS. We are all the more disappointed, since the reasons we have been given to explain the approximate integration between the CAR and CAS processes appear to us more bureaucratic than substantive.

2. CAR-CAS: The CAR constitutes a fair assessment of the Bank’s performance. Its analysis of the portfolio is outstanding. Many issues raised in this chapter (complexity of projects, parallel implementation arrangements, weak supervision, optimistic rating, unrealistic planning, lack of linkages to macro programs and the macro scenario, substitution of credits for grants, fluctuation of task managers) would have deserved a more thorough consideration in the CAS. In this respect, Management’s response to OED, which basically states that the CAS has already taken into account all the lessons learned, falls short of our expectations.

The problem of Mozambique’s absorptive capacity is not adequately treated in the CAS, and the investment program (base case) does not take into account, in its volume and composition, what the Bank has had to learn through slow disbursements, cancellations, credit restructuring, etc. This comment refers especially to soft areas of institutional change and capacity building. At the macro and macro/fiscal level, the CAS does not propose what the CAR recommends, that is to adjust the total amount of Bank-induced public expenditures to a medium term expenditure framework that takes into account available grant money.

3. We agree with the CAS that to achieve broad-based growth and poverty alleviation, it will be essential to tap the potential in agriculture. This will require channeling far more resources towards the rural areas, in particular to the center and the north. A poverty-alleviating strategy must focus on raising smallholder incomes through better market access and productivity increase which require inter alia access to credit, improved rural road and transport network, and promotion of trade and small scale and microenterprises.
The profile of the public investment programs must reflect these objectives. High on the agenda is an extended road program, which should focus on secondary and tertiary roads. The program should consider the use of labor intensive techniques which provide rural income, lay the basis for low-cost maintenance and facilitate participation by Mozambican contractors. It will be important to simplify regulations which currently impede microenterprises from functioning.

4. Mozambique’s achievement in the field of democratic development and peace building has been no less impressive than its macroeconomic accomplishments. To achieve accountable governance and sustain growth it will now be necessary to foster the growth of civil society and political participation, to entrench democratic norms and promote the rule of law.

5. We like the CAR’s proposal that the Bank should be part of a “results-oriented management coalition”. This implies a fundamental change in attitude and recognition that nobody can do everything alone. I would be interested to know how the Bank intends to build such a coalition, based on complementarity and comparative strength in education, health and agriculture, in order to become an accepted and important partner.

6. The Bank’s decision to delegate IDA’s portfolio management responsibility to the resident representative in Maputo is certainly welcome. This should facilitate the dialogue with the Government of Mozambique as well as with the local donor community.

7. Some members of the donor community in Maputo expressed disappointment in what has been perceived as a deficient consultation process in the elaboration of the CAS. In this context we welcome the Bank’s stated intention of organizing a meeting with the bilaterals, the Government and all major stakeholders early in 1998 to discuss the CAR and the CAS. This should help in establishing a constructive dialogue between the various partners.

8. Even with substantial HIPC debt relief, Mozambique will remain highly dependent on external aid flows to finance imports and the national budget. We would have appreciated more elaboration in the CAS on this aid dependency, to better apprehend medium-term trends and risks. Furthermore, we welcome and fully support the orientation on the nature of the IDA-funding provided under the base case scenario (i.e. until the completion point). The fact that up to 3/4 of project lending through the proposed completion points of mid-1999 could be in the form of grants represents an appropriate option to address Mozambique’s current situation and challenges.