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**MEMORANDUM OF THE PRESIDENT
OF THE
INTERNATIONAL DEVELOPMENT ASSOCIATION
TO THE
EXECUTIVE DIRECTORS
ON A COUNTRY ASSISTANCE STRATEGY
OF THE WORLD BANK GROUP
FOR THE
REPUBLIC OF MOZAMBIQUE**

November 21, 1997

Africa Region

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The last Country Assistance Strategy was dated November 7, 1995

CURRENCY EQUIVALENTS

(as of October 1997)

Currency Unit	= Metical (Mt)
US\$1.00	= Mt 11,490
SDR 1	= Mt 15,890
Mt 1,000	= \$ 0.087

ABBREVIATIONS AND ACRONYMS

AMSCO	African Management Services Company
APDF	Africa Project Development Facility
BCM	Banco Comercial de Moçambique/Commercial Bank of Mozambique
CAS	Country Assistance Strategy
CPPR	Country Portfolio Performance Review
DPT	Diphtheria/Pertussis/Tetanus
EDI	Economic Development Institute
EMRS	Expenditure Management Reform Strategy
ESW	Economic and Sector Work
FIAS	Foreign Investment Advisory Service
FRELIMO	Frente de Libertação de Moçambique/Mozambique Liberation Front
GDP	Gross Domestic Product
GEF	Global Environment Facility
HIPC	Highly Indebted Poor Countries
IBRD	International Bank for Reconstruction and Development
IDA	International Development Association
IFC	International Finance Corporation
IMF	International Monetary Fund
LIL	Learning and Innovation Loan
MIGA	Multilateral Investment Guarantee Agency
NGO	non-governmental organization
NPV	net present value
PAU	Poverty Alleviation Unit
PER	Public Expenditure Review
PFP	Policy Framework Paper
PODE	Enterprise Development Program
PROAGRI	Programa Nacional Para o Desenvolvimento Agrícola/Agricultural Sector Investment Program
PSDD	Poverty and Social Development Department
RENAMO	Resistencia Nacional de Moçambique/Mozambique National Resistance
SADC	Southern Africa Development Community
SEF	Extended Reach Program/Small Enterprise Facility
SIPS	Sector Investment Programs
SME	Small and Medium Enterprises
UNAIDS	United Nations AIDS Program
UTRE	Technical Unit for the Restructuring of Enterprises

MOZAMBIQUE'S FISCAL YEAR

January 1-December 31

Vice President:	Callisto Madavo
Director:	Phyllis Pomerantz
Staff Member:	Phyllis Pomerantz, Country Director; Jehan Arulpragasam, Economist

COUNTRY ASSISTANCE STRATEGY

TABLE OF CONTENTS

EXECUTIVE SUMMARY		i
I. Recent Social and Economic Performance		1
II. The External Environment		6
III. The Government's Development Agenda		7
IV. The Bank Group's Country Assistance Strategy		10
Progress Since the Last CAS		10
Lessons and the Future Agenda		10
Objectives and Strategic Priorities		12
Promotion of Private Sector-Led Growth		13
Capacity Building and Human Resource Development		15
Strengthening Partnerships		16
The Bank's Program - Portfolio Management		17
The Bank's Program - Scenarios, Proposed Lending and Triggers		18
The Bank's Program - Analytical Work and Policy Advice		21
Risks and Conclusion		21
Boxes		
Box 1	Social Indicators for Mozambique and Sub-Saharan Africa	2
Box 2	Mozambique- Liberalization Efforts	6
Box 3	Key Donors in Selected Sectors	12
Box 4	Proposed ESW for FY98-00	21
Box 5	"Just-in-Time" Policy Advice and Technical Support	21
Figures		
Figure 1	Real GDP Growth, 1985-96	5
Figure 2	Inflation Rates, 1985-96	5
Annexes		
Annex 1:	Country at a Glance	
Annex 2:	Selected Indicators of Bank Portfolio Performance & Management	
Annex 3:	Bank Group Program Summary	
Annex 4:	Summary of Nonlending Services	
Annex 5:	Poverty and Social Development Indicators	
Annex 6:	Key Economic Indicators	
Annex 7:	Key Exposure Indicators	
Annex 8:	Status of Bank Group Operations in Mozambique	
Annex 9:	CAS Program Matrix	
Annex 10:	CAS Summary of Development Priorities	

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MOZAMBIQUE COUNTRY ASSISTANCE STRATEGY

Executive Summary

1. In just a few years, Mozambique has made impressive strides from war to peace, from a centrally-managed stagnant economy to a market-oriented, rapid growth economy, and from a one-party state to a multi-party democracy. The pace of economic reform accelerated over the last two years, and Mozambique is now poised to take advantage of its considerable economic potential. **GDP growth**, over six percent in 1996, was broad-based, including a strong performance by the agricultural sector. The **inflation rate** (70 percent in 1994 and 54 percent in 1995) is running at single digits for 1997. Lower inflation has been the result of sound macroeconomic policies; **financial sector reform**, including the privatization of the state-owned banks; and increased food production. Under Mozambique's **privatization** program, about 800 out of about 1,250 public enterprises have now been privatized. Industrial output recovered strongly in 1995-6 following a five-year decline. Additional enterprises, including the national airline, are slated for privatization over the next eighteen months.

2. Efforts are being redoubled on **fiscal management**. Mozambique is still highly aid-dependent, with a fiscal deficit before grants of 17 percent in 1996. The private management of customs and tariff reform are expected to boost revenues. Since 1994, social spending has increased significantly, while defense and security expenditures have been reduced sharply. At end 1996, Mozambique's external public debt was about US\$5.6 billion in net present value terms, with close to 75 percent owed to Paris Club bilateral creditors. Mozambique's eligibility for the Heavily Indebted Poor Country Initiative (HIPC) was recently considered by the Bank and IMF Boards. Most Directors favored a decision point as soon as possible, a completion point no later than mid-1999, and a debt to export ratio target at the lower end of the 200-220 percent range.

3. Despite post-war improvements, Mozambique's social indicators are still below sub-Saharan African averages, and gender differences are significant. Ambitious health and education sector programs are aimed at dramatic increases in social sector coverage and service quality. Improving governance, including public sector reform, and building capacity remain central challenges.

4. **The Bank's Country Assistance Strategy (CAS) supports the Government's program for poverty reduction through sustainable economic growth.** Poverty-reducing growth in Mozambique involves a shift of resources and opportunities towards rural areas where the poorest live. Based on the lessons learned during the last CAS period and on Mozambique's changing circumstances, the Country Team has defined three strategic priorities:

- **Promoting rapid, broad-based private sector-led growth**
 - ⇒ supporting the macroeconomic reform agenda
 - ⇒ supporting high potential growth sectors
 - ⇒ creating a "business-friendly environment"

- ⇒ improving environmental management and assessment
- **Capacity-building and developing human resources**
 - ⇒ increasing Mozambican participation in the private sector
 - ⇒ supporting public sector reform and decentralization
 - ⇒ increasing coverage and quality in health and education
 - ⇒ promoting AIDS education
- **Strengthening development partnerships**
 - ⇒ reinforcing the Bank Group/Government partnership
 - ⇒ mobilizing resources and coordinating aid
 - ⇒ strengthening ties with civil society
 - ⇒ promoting regional partnerships
 - ⇒ ensuring adequate coordination within the Bank Group

5. Under the base case, the current pace of reform would be maintained, with nonenergy growth rates of at least five percent. Boosted by one or more of the large energy export projects, export growth would average about 12 percent per annum. Mozambique would reach the HIPC Completion point by mid-1999. On the political front, peace would continue to hold through local elections in 1998 and national elections in 1999. CAS objectives would be supported through implementation of the current portfolio, new lending of about US\$480 million during FY98-00, analytical work, and “just-in-time” policy advice and technical support. The proposed level of IDA lending is based on the need for complementary infrastructure to support continued agricultural and industrial growth, Mozambique’s successful transition to peace, and a significant improvement in portfolio performance. As part of the HIPC Initiative, if the Government opts for a portion of the debt relief to be provided through interim measures, up to three-quarters of the base case lending program through the proposed completion point of mid-1999 could be provided as IDA grants. While Mozambique’s HIPC eligibility *per se* does not have a direct impact on the size or composition of the base case lending program, debt relief would bolster investor confidence and free up some resources for social and infrastructure expenditures. Indicators of the base case would include: adherence to the policies - including those related to agriculture, privatization, concessioning of ports and railways, and environmental assessment - outlined in the most recent Policy Framework Paper; achieving HIPC social targets; providing agreed budget allocations for Sector Investment Programs; and continuing portfolio performance.

6. The Mozambique program is not without risk. The war’s devastation, serious capacity constraints, regional and urban/rural disparities, pressure on natural resources and weak environmental management, and fragile democracy pose serious challenges. The growing public debate over economic policies and a perception that the majority of the population have not yet reaped the benefits of peace could threaten the continuity and pace of reform efforts or even, at its extreme, shatter the peace. Despite the risks, there is room for considerable optimism. Mozambique has made impressive progress on the economic, social and political fronts since the war ended, and future prospects are encouraging. Moreover, the Government’s strategy of investing in rural areas and increasing support to small-scale agriculture and social services - provided this is coupled

with adequate environmental protection and management - could bring with it relatively rapid advances in poverty reduction. In addition, the HIPC initiative increases the probability that economic growth can be sustained.

The following are among the issues that the Board may wish to consider:

- Mozambique's pressing needs argue for a rapid expansion of infrastructure and social programs. Experience has demonstrated the need to tailor the portfolio taking into account capacity constraints. Is the size and composition of the proposed base case lending program appropriate?
- The pace of reform has accelerated in Mozambique, but peace and democracy are still fragile. The urgency of reform needs to be balanced with ensuring that reforms are politically viable, i.e., owned by the Government and understood by the public. Do the base case reform program and indicators strike the right balance?
- There is a diverse set of risks currently facing Mozambique and the Bank's assistance strategy. Does the proposed approach - focusing on capacity building, private sector-led broad-based growth, and strengthened partnerships - provide the right building blocks for mitigating these risks?

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I. Recent Social and Economic Performance

1. Mozambique is in the throes of rapid change. In just a few years, it has made impressive strides from war to peace, from a centrally-managed stagnant economy to a market-oriented, rapid growth economy, and from a one-party state to a multi-party democracy. In many ways, Mozambique's accomplishments have exceeded the international community's expectations. Yet Mozambique is still among the poorest, most heavily indebted and most aid-dependent countries in the world. The challenge of reducing poverty and raising the living standards of its citizens remains daunting, but prospects are now more promising than they have ever been in recent Mozambican history. Reinforcing these prospects, and ensuring the social, economic and environmental sustainability of Mozambique's future, is the task to which the Government and its development partners are now turning their energies.

2. **Historical Background.** Mozambique became independent from Portugal in 1975, and almost immediately plunged into a war between the socialist FRELIMO party in power and RENAMO forces. The conflict - fostered by external parties, Cold War rivalries and South African geopolitical concerns - decimated Mozambique's already weak productive and social infrastructure. Five million people were displaced, including over 1.7 million refugees in neighboring countries. The end of the Cold War, changes in South Africa, and the weariness of the combatants brought opportunities for peace. A General Peace Agreement was signed in October 1992. Over the next two years, the Government demobilized 80,000 soldiers, the refugees returned, displaced families went back to the countryside, and the difficult process of removing land mines began. In 1994, Mozambique held its first multi-party national elections. Led by President Joaquim Chissano, FRELIMO won, but RENAMO holds nearly 45 percent of the seats in the National Assembly. The peace is holding in Mozambique, but the democratic transition is still fragile and continues to influence the pace and direction of change. On the political horizon, local elections in 1998 and presidential elections in 1999 are the first tests of the elected FRELIMO government and provide an opportunity to further consolidate democracy.

3. **Poverty.** The overwhelming majority of Mozambicans are poor (Box 1). Conditions are generally worst in the northern and western areas of the country, but this may be changing with agriculture growth after the war. Large changes have already occurred. Only 90,000 families are currently receiving direct food aid; in the early 1990s, over one million families were in official feeding programs. Current safety net schemes include a cash transfer scheme covering 13 urban areas, a Social Fund for Medicine, an Infant Food Supplement Program in Maputo and a Nutritional Rehabilitation Program. Nevertheless, as many as one in four children is still suffering from malnutrition. Most of the poorest Mozambicans are small farm families who are particularly vulnerable because of recurring drought and the remoteness of many rural areas. Rural female-headed households are in the worst position, owning less land and agricultural implements and having less education than male-headed households.

Box 1: Poverty in Mozambique

Social Indicators for Mozambique and Sub-Saharan Africa		
	Mozambique	Sub-Saharan Africa
GNP per capita (US\$, 96)	90	490
Life expectancy at birth (years)	47	52
Infant mortality (per 1,000)	128	92
Maternal mortality (per 100,000)	1,100	700
Illiteracy (percentage of population age 15+)	60	43
Gross primary enrollment (% of age group)	61	72
of which Female	45	

- *Most of Mozambique's poor are rural poor. Eighty percent of all Mozambicans live in rural areas, and about two-thirds of all rural Mozambicans live in absolute poverty.*
 - *There are wide regional disparities, but rural households are least likely to have access to health services, schools, and safe water. According to the Government's Rural Poverty Profile, only 45 percent of the 6-10 year age group attend school in rural areas. Close to 30 percent of rural households have to go beyond half a kilometer for water.*
 - *The remoteness of many rural areas also increases rural households' food insecurity; this is exacerbated by the destruction of rural infrastructure and trading networks during the war. Less than 30 percent of farming households market their produce, and rural households report an average of about 3.7 months of food insecurity during the year (1994 Agricultural Survey). This varies considerably from region to region, and may be improving with agricultural growth. The malnutrition rate among children under the age of five was estimated at 27 percent (1995).*
 - *Urban poverty, while not as widespread as rural poverty in Mozambique, is also a problem. An estimated one third of urban Mozambicans are living in absolute poverty. The most urgent problem in poor urban neighborhoods is access to water and sanitation, followed by health care and public safety.*
 - *Analysis this year of several important national surveys will enhance understanding of the nature and extent of poverty in Mozambique today.*
- ⇒ *The Government's poverty reduction strategy focuses on: (a) promoting poverty-reducing growth, particularly through support for smallholder agriculture; (b) developing human resources, through the increased provision and quality of social services; and (c) improving safety nets to assist the poorest and most vulnerable groups. IDA's strategy concentrates on the first two elements.*
-

4. Female-headed households are particularly affected by poverty because of the need to provide for their families added to the more traditional household and childcare roles. The lack of access to services, and having to travel long distances for water and fuelwood, increase this burden. Female-headed households, representing about 22 percent of households, are especially prevalent in the South where, since the beginning of the century, men have emigrated to South Africa to work in the mines. Gender differences in poverty extend beyond female-headed households to differences in school enrollment, school dropout, and malnutrition rates. There are few female skilled professionals in any sector. Family law is one of the priorities for ongoing legal reform.

5. **Social Services.** During the war, one third of all rural health units and about 70 percent of schools were destroyed or closed. Despite substantial external assistance, the scope for improving social services was limited because of difficulties in accessing large parts of the country and the need to finance defense outlays. Over the last few years, expenditures on social services have increased markedly: by 20 percent in real terms in 1995 and another 3 percent in 1996. While improvements are beginning to emerge, Mozambique's social indicators are still low by any

standards, including those of Sub-Saharan Africa (Box 1). In addition, high population growth rates create pressing demands on the provision of services.

6. In **health**, efforts have focused on the rehabilitation of the primary health network (466 units were built during 1992-96), drug supplies, and training of health personnel. Since November 1995, these efforts have been integrated in a health sector program supported by IDA and other donors. Service use expanded by 12 percent during 1994-95 and by an estimated 8 percent in 1996. Notably, in 1996, vaccination coverage for tuberculosis increased to 82 percent, and no new polio cases were reported. Also, between 1995 and 1996, the share of expecting mothers who had at least one prenatal checkup rose from 64 to 73 percent, and attended births rose from 25 to 29 percent. The prevalence of AIDS in Mozambique is low by regional standards (around 6 percent), but much higher (up to 20 percent) along the transport routes to Malawi, Zambia, and Zimbabwe, and is rapidly on the increase. A National Aids Prevention Program has been in place since 1992.

7. In **education**, progress has also been made. The number of primary school classrooms, particularly in rural areas, increased by about 40 percent between 1992 and 1996. The average gross primary enrollment rate increased from 54 percent to 61 percent in the same period. While slowly improving, quality remains low: teacher qualifications, textbook availability, and the student-teacher ratio (58:1) remain poor. Repetition and drop-out rates are still high (24 percent and 14 percent). Improvement in girls' education has been slower, with the average primary enrollment rate for girls rising to only 45 percent. In the case of secondary education, access and quality indicators for all students are extremely low. Large disparities persist in access to education by region and are more pronounced in secondary and tertiary education.

8. **Capacity.** Increased capacity and skills are critical to manage a growing economy. Capacity constraints are especially startling: at the end of the war, there were only about 4,000 university graduates and 25 PhDs in the country. One third of senior civil servants possessed only a primary school education, and in 1989 there were only two Mozambican road engineers. Capacity is now increasing through project-related and on-the-job training. In IDA supported projects alone, over 18,000 people have received some form of training. Efforts are also underway to strengthen university education. About 4,700 students are enrolled at Eduardo Mondlane University in Maputo, and, for example, over fifty (and rising fast) road engineers have now been trained. Building capacity will remain a central challenge for years to come.

9. **Governance.** Weak public sector institutions have the potential to become a constraint on economic development by hampering the government's ability to provide adequate services and by creating the conditions under which corruption and crime can grow. The first steps towards a public sector reform program are being taken, e.g., developing a rationalized and simplified civil service career stream. Next steps include a pay and employment reform, including a decompression of salary levels. The Government has also proposed measures to address corruption and crime directly, by presenting to the Assembly two bills: the Government Ethics Bill and the High Authority Against Corruption Bill. The latter bill was not approved on the grounds that existing institutions had sufficient mandate and should be more rigorous in investigating and prosecuting corruption. Other measures the Government has put into place include the recruitment of a private firm to manage customs and ongoing police reform.

10. **Economic Potential.** Mozambique's relatively untapped natural resource base affords opportunities in agriculture, forestry and fishing; energy (natural gas, hydropower, and coal); and tourism. In addition, the country's location makes it the ideal gateway for products to and from the interior of South Africa, Swaziland, Zimbabwe, Zambia, and Malawi. The southern Maputo Corridor is the shortest link to the sea for South Africa's Gauteng region.

11. Little of Mozambique's potential has been tapped. Agriculture accounts for about 32 percent of GDP, employs about 70 percent of the labor force and accounts for 80 percent of exports. Principal commodity exports are shrimp (50% of total export earnings), cotton, cashew and sugar. However, less than 10 percent of Mozambique's arable land is presently under cultivation. On the energy front, a number of natural gas and associated industrial projects are on the drawing boards. The most advanced of these is the Pande Gas project, which has attracted the interest of international energy companies. Following war-related sabotage, the Cahora Bassa Hydroelectric project's transmission lines have been rebuilt; energy is scheduled to be exported to South Africa beginning in 1998. Feasibility studies will also soon begin for additional hydroelectric installations. In addition, Mozambique and South Africa have agreed to collaborate on a Maputo Corridor Development initiative. A privately financed toll road between South Africa and Mozambique, the private concessioning of Maputo Port and the southern railway line, a large aluminum smelter project, and several other industrial ventures are part of this initiative. Plans are also underway for the concession of the other two major international ports and railway lines. An ecotourism project for southern Mozambique is also in the preliminary planning stage.

12. All of these projects bring with them the prospects of rapid increases in investment, export earnings, and to some extent, domestic revenues. However, there is also a considerable risk that if Mozambique's natural resources are not adequately protected and managed, sustainable development and poverty reduction will remain elusive. Already in the post-war years, there have been fairly widespread incidents of illegal forestry activities, land grabbing, overfishing, and commercial wildlife poaching. The energy and industrial "megaprojects" under consideration are also likely to have significant environmental and social implications. There has been previous work on a Country Environmental Strategy and a National Environmental Management Program, and the process of environmental impact assessment is beginning to take hold in Mozambique. However, the rapid pace of development is coupled with weak institutional capacity. Without significant improvements in environmental policy and regulation, management, monitoring, and enforcement, the long-term sustainability of economic growth could be threatened.

13. **Economic Performance.** Mozambique has successfully implemented a series of wide-ranging economic reforms since 1987 (Box 2). Although progress was slow during the war, the 1990s, and particularly the last two years, have witnessed a marked acceleration in reform. GDP growth has been strong, averaging over five percent, and in 1996, it was over six percent (Figure 1). Growth has been broad-based: production increased by an average annual rate of five percent in commerce, seven percent in manufacturing, twenty percent in construction and ten percent in agriculture. In the cashew subsector, aggregate producer revenues are estimated to have more than doubled, from an average of US\$7 million during the 1992-1995 seasons to about US\$17 million average during the 1996-1997 seasons, benefiting an estimated one million rural poor. Exports are growing strongly, with a 30% increase from 1995 to 1996. Nonetheless, exports and growth remain highly vulnerable to external, especially weather-related, shocks. Major progress also has now been made in reducing inflation. The inflation rate was down to 17 percent in 1996 (from 70 in 1994 and 54 percent in 1995) and is running at single digits for 1997 (Figure 2). The

lower inflation rate was the result of tight fiscal and monetary policies (aided by the privatization of the largest state-owned bank), a more stable exchange rate, and increased food production.

Figure 1: Real GDP Growth, 1985-96
(In percent)

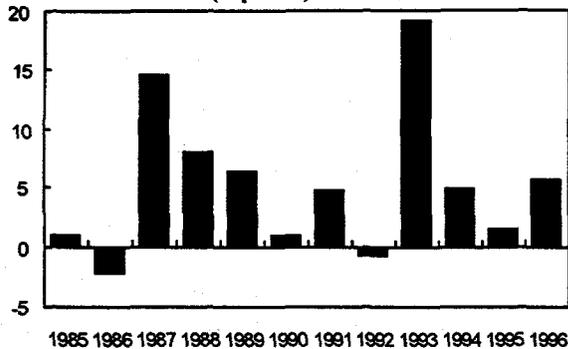
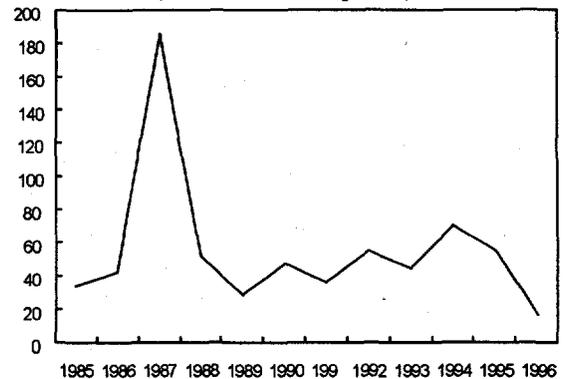


Figure 2: Inflation Rates, 1985-96
(1989=100; end-of-period)



14. **Fiscal management** is an area where stronger efforts are particularly needed on the revenue side to ensure the availability of resources to sustain priority social and infrastructure programs. Tax revenue has declined in recent years, mostly as a result of weak customs administration and the widespread granting of exemptions. To resolve this problem, in December 1996 the Government contracted a private firm to manage and modernize customs for a period of three years. In addition, the government adopted a new tariff structure in late-1996 which reduced the average nominal tariff rate from 18 to 11 percent, while limiting exemptions. On the expenditure side, since 1994 overall expenditure levels have been cut sharply. While social spending increased, defense and security expenditures were reduced. A Fiscal Management Review is underway to help establish a medium term expenditure framework and budget allocation criteria. Also, the integrated sector programs are assisting the Government in setting priorities, rationalizing expenditures, and coordinating external assistance. Nevertheless, the overall deficit before grants, while declining from 21 percent in 1995 and covered by foreign aid, remained at 17 percent of GDP.

15. **Financial Sector Reform.** Significant progress has been made in transforming a state-dominated financial sector into a more diversified and competitive system. In 1992 the Bank of Mozambique was restructured into a central bank and the Banco Comercial de Mocambique (BCM). After several years of little success in restructuring BCM and the other state-owned bank, the Banco Popular de Desenvolvimento (BPD), the Government finally decided to privatize them. With the privatization of BCM in 1996 and BPD in September 1997 the banking sector is now fully in private hands. This has contributed to improving the effectiveness of monetary controls, as well as to the provision of basic banking services. Several new private banks and a leasing company are now also operating in Mozambique. There is still a need, however, for continued financial sector development and deepening to support the private sector. This includes the further development of financial instruments and capital markets and the re-establishment of rural credit and microfinance networks.

16. **Privatization.** Mozambique's privatization program has been among the most active in Africa. Over 800 out of about 1,250 public enterprises have been privatized, including about 45 enterprises (resulting in close to 100 sold units) from the Technical Unit for the Restructuring of

Enterprises (UTRE) list of medium and large enterprises. As a result, public enterprises now account for less than one-quarter of industrial output, compared with over two thirds in 1990, and industrial output recovered strongly in 1995-6 following a five-year decline. More enterprises, including the national airline, are slated for privatization over the next eighteen months.

II. The External Environment

17. **External Debt and Debt Structure.** At end-1996, Mozambique's external public debt was estimated at US\$7.5 billion or US\$5.6 billion in net present value (NPV) terms (about 1,358 percent of exports). Of this total, 73 percent was owed to Paris Club bilateral creditors, 14 percent to multilateral creditors, and 13 percent to non-Paris Club bilateral creditors. Of the Paris Club debt, 40 percent was owed to Russia. Of the multilateral debt, IDA accounted for 54 percent (7.5 percent of the total), the African Development Bank for 19 percent, and the IMF for 18 percent. The NPV of Mozambique's total external debt, including private sector non guaranteed debt, amounted to US\$7.4 billion. A fifth debt rescheduling agreement was concluded with the Paris Club in November 1996. It involved a three-year-flow rescheduling on Naples terms with a debt service reduction of 67 percent, on an NPV basis. Mozambique has large arrears on debt to Russia and other former socialist countries, reflecting limited progress in securing rescheduling agreements from these creditors. The recent entrance of the Russian Federation into the Paris Club has now paved the way for resolution of this issue.

18. **Debt Sustainability and the HIPC Initiative.** Preliminary debt analysis shows that even with the full application of existing debt relief mechanisms, Mozambique's external debt will remain unsustainable (with an NPV of debt to exports above 250 percent) at least through the year 2005. In September 1997, the Boards of the Bank and the IMF considered Mozambique's Preliminary Document on the Initiative for Heavily Indebted Poor Countries (HIPC). There was agreement that Mozambique was eligible for HIPC assistance and that the decision point should be reached as soon as possible, contingent upon the completion of debt reconciliation with all

Box 2. Mozambique-Liberalization Efforts

***Trade.** In 1986, restrictions on international trade were widespread. All imports and exports were subject to licensing. In 1987, enterprises were allowed to import and export directly, and the number of products controlled by state monopolies was substantially reduced. In 1991, the system of import licenses was significantly streamlined. In August 1991, the tariff structure was simplified from 34 rates to only 5 rates ranging from 5 to 35 percent. In November 1996, the average tariff was reduced from 18 to 11 percent. In 1995, quantitative restrictions on the export of cashews were removed and the export tax lowered from an effective rate of 40 percent to 14 percent in 1996. While import and export licenses are still required, they are used primarily for statistical purposes. All significant non-tariff barriers have been lifted.*

***Price Controls.** In 1986, transactions amounting to 70 percent of official GDP were subject to price controls. In 1987 and 1988, prices of controlled products were increased substantially, while the number of commodities subject to price controls was reduced from 37 to 25. During 1993, formal price controls were abolished on an additional 22 goods. Price controls on wheat and bread, the last commodities to have their prices liberalized, were removed in early 1996. Tariffs on utilities and prices of petroleum products are now adjusted at regular intervals. All minimum producer prices have been replaced by reference prices, except for cotton and cashew.*

***Exchange Rate.** In 1986, the metical was grossly overvalued and the exchange rate against the dollar in the parallel market was nearly 40 times the official rate. Since mid-1993 the metical exchange rate has been market-determined. The adjustment of the exchange rate towards market rates was gradual, with an extended series of devaluations. Since October 1996, the premium between the official and parallel market rates has been less than 5 percent. An interdealer market was started in 1996 and its operations are being expanded in 1997.*

major creditors, especially Russia. Most Executive Directors in both institutions favored a completion point no later than mid-1999, conditional on continued reform progress. They indicated that the debt to export ratio (in NPV terms) should be set at the lower end of the 200-220 percent range to ensure that the Initiative provides an exit solution for Mozambique. One difficult issue is that preliminary calculations indicate that Paris Club creditors will not be able to reach their share of the assistance required for a target of 200-220 percent with an 80 percent NPV reduction on eligible debt. Consultations are ongoing with Mozambique's creditors on burden sharing issues and costs of assistance. The final HIPC document is being prepared.

19. **External Financing Flows.** Even with potential HIPC debt relief, Mozambique will remain dependent on external aid flows to help finance imports and the national budget. At the last Consultative Group meeting held in May 1997, aid partners endorsed the Government's program and underscored the importance of continuing reforms in agriculture, private sector development, capacity building and public sector reform, and human resource development. Donors pledged to meet Mozambique's 1997 financing requirement of US\$560 million (including an estimated US\$165 million in IDA disbursements).

20. Given Mozambique's economic potential, improved economic performance and the successful transition to peace, foreign investor interest has increased. In 1997, foreign private capital flows are projected at US\$165 million. An estimated US\$7 billion in large, mostly foreign-financed investments are under consideration. While it is unlikely that all of these will come to fruition, foreign private capital flows are expected to increase markedly over the coming years.

21. **Regional Context.** Regional developments in Southern Africa can significantly influence the pace and sustainability of economic development in Mozambique. The three international transit corridors and ports are potentially important revenue sources. Implementation of the Maputo Corridor Development Program is expected to significantly boost economic activity in both countries. Mozambique is an active member of the Southern Africa Development Community (SADC). SADC's expanding membership, including South Africa and more recently, the Democratic Republic of the Congo, is likely to heighten regional cooperation in areas such as water resource management, energy, banking, trade, tourism, and wildlife protection.

22. **Climatic Variability.** Droughts of varying intensity and damaging storms and floods occur periodically in Mozambique. While experience is slowly developing in Mozambique with drought mitigation measures (e.g., drought resistant crops), emergency drought relief programs, and improved river basin management, Mozambique's economy is extremely vulnerable to adverse weather conditions.

III. The Government's Development Agenda

23. The Government of Mozambique's central economic goal is to create the conditions for poverty-reducing economic growth, while lowering the country's dependence on external aid. The Government's efforts can be grouped into the following policy clusters:

- macroeconomic policies that consolidate macroeconomic stability and remove structural imbalances;
- policies to promote growth in private sector investment, taking into account regional imbalances and environmental protection;

- policies aiming at social equity;
- policies to strengthen capacity within the public sector.

24. **Macroeconomic Management.** The main macroeconomic targets for the 1997-99 period are: (a) real *growth* of nonenergy GDP at an annual rate of at least 5 percent; (b) maintaining a single digit inflation rate; and (c) maintenance of gross *international reserves* at the equivalent of about four to five months of imports of goods and nonfactor services, and about a US\$140 million increase in net foreign assets of the banking system. Fiscal policies will continue to play an important role in economic stabilization, and a reduction in the fiscal deficit (of about 2-3% of GDP over the next two years) is a key objective. On the *expenditure* side, main policy objectives are to improve efficiency and ensure sustainability of public expenditures. The Government, with assistance from IDA and other donors, will implement its Expenditure Management Reform Strategy (EMRS) during 1998–2001. The focus of the EMRS is to implement the new budget framework law, as well as to develop a medium-term expenditure program to better match policy priorities and resource availability. Regarding *revenues*, the Government plans to reduce selected direct tax rates while broadening the tax base and improving tax administration. The next step is the introduction of a value added tax in mid-1998. Continuing implementation of customs reform is also a priority for increasing revenues.

25. **Private Sector Development.** The Government plans to complete its current **privatization** program for large and medium-scale enterprises by end-1998. This includes the privatization of the national airline, the concession of all major port terminals and railway lines, and the private management of five urban water companies. The Government will also move ahead with the liberalization of the telecommunications sector and the restructuring of other public utilities, including, in some cases, privatization or management contracts. **Financial sector reform** will continue with a strengthening of banking supervision and an expansion of financial instruments and markets. To further improve the **business environment**, the Government will continue to simplify the legal and regulatory framework, in consultation with the private sector. The Center for Investment Promotion (CPI) will reduce its approval role in favor of its promotion and facilitation functions. The Government also plans to increase support for **indigenous entrepreneurs and microenterprise development**. Many of these activities are benefiting from IDA and IFC support.

26. Reform and investments in Mozambique's **transportation** sector are aimed at: (a) establishing a road network linking all of Mozambique's provinces; (b) providing increased rural access to markets and social services; and (c) generating substantial foreign exchange earnings through the international transit corridors. The ongoing integrated Roads and Coastal Shipping Program (ROCS) will continue to rehabilitate priority roads and bridges, improve maintenance, and strengthen sectoral institutions and funding mechanisms. Particular attention will be given in the next phase to rural roads. Construction of the toll road and concessioning of the Maputo port and railway line, part of the Maputo Corridor development initiative, will pave the way for a comprehensive restructuring of the national railways and the private concessioning of the two other international transit corridors by the end of 1998. In addition to transport, complementary infrastructure investments in **water** and **urban development** will promote private sector development, while improving living conditions for the urban poor.

27. **Smallholder agricultural development** and sound **natural resource management** are fundamental to growth and poverty reduction. An agricultural sector expenditure program (PROAGRI), to begin in 1998, will rationalize donor support and expenditure in the sector and improve the effectiveness of government services (research, extension, disease prevention) and regulation (quarantines, land markets and tenure, forest and wildlife management). As part of PROAGRI, the Government is developing a national forest and wildlife program and reviewing existing natural resource legislation, including concession policies and the protection of community rights. A national coastal zone management program is expected to be launched in 1998. The investment code has recently been revised to require environmental assessments. Additional legislation, recently approved by the Assembly, will provide an institutional framework for the application of environmental regulations and procedures.

28. **Social Policies.** Given the extent of poverty in Mozambique, the Government's strategy focuses on: (a) promoting poverty reducing growth, particularly through support for smallholder agriculture; (b) developing human resources, through the increased provision and quality of social services (health and education); and (c) improving safety nets aimed at assisting the poorest and most vulnerable groups. In particular, emphasis is being given to prioritizing expenditures and ensuring adequate recurrent funds from the budget to finance the health and education sector expenditure programs. The ongoing **health** sector program targets an increase in health coverage from 40 percent of the population currently to 60 percent in the year 2000. Other key targets for the program include an increase in DPT vaccination coverage from 55 to 80 percent and reductions in maternal and infant mortality. The **education** sector program is being prepared in cooperation with IDA and other donors. Key objectives are to increase the admission rate up to 80–86 percent by the year 2000 (from 75 percent in 1996) and lower the repetition and drop-out rates in primary education to 14–17 percent and 10–12 percent, down from 24 and 14 percent, respectively. The program will also implement special programs for girls and for the provinces with the lowest coverage. In 1994, the government established a Poverty Alleviation Unit (PAU) which formulated a poverty alleviation strategy in 1995 and completed a rural poverty profile in 1996. A gender action plan has also been completed. The PAU has now merged with the Population Planning Unit to create the Population and Social Development Department (PSDD). The PSDD will prepare a national poverty assessment and **poverty action plan** by end-1998. The action plan will include a reform of social safety nets to improve targeting and cost-effectiveness and extend coverage to rural areas.

29. **Public Sector Reform.** The Government regards the public sector as a priority area for reform. Efforts are aimed at reorganizing and reforming the civil service at the central and provincial levels; establishing municipal governments; and training its public servants. A new career and remuneration system, including a significant salary scale decompression, is being developed to provide greater incentives for civil servants. With respect to decentralization, a legislative package governing local elections and local authorities was approved by the National Assembly in early 1997. Local elections are to be held in 1998 in 23 cities and 10 towns. The Government also plans to prepare a governance program, summarizing actions it has taken and will take to increase transparency and curb corruption.

IV. The Bank Group's Country Assistance Strategy

Progress Since the Last CAS

30. Two years ago, at the time of the last CAS, Mozambique was still emerging from a war-torn economy to one at peace. While annual growth rates were averaging above five percent, the macroeconomic situation was fragile. With the central objective of poverty reduction, the Bank's strategy emphasized rapid growth through: the restoration of a stable macroeconomic framework; human resource development, primarily through the rebuilding of basic health and education services; and the promotion of high potential growth sectors, such as agriculture, transport and energy. In order to ensure that growth was as broad-based and poverty-reducing as possible, the CAS advocated a shift of resources towards rural areas.

31. Recognizing capacity constraints and the relatively poor performance of the ongoing IDA portfolio, the strategy emphasized improvement of the existing portfolio and a selective and relatively modest lending program. Non-lending assistance and improved aid coordination were featured. In light of the Bank's analysis that more rapid policy reforms were needed for sustained growth and faster poverty reduction, relatively ambitious base case indicators were established. These included: adherence to IMF targets, privatization of the largest state-owned bank; customs reform; cashew marketing liberalization; achieving specified privatization targets, improving budget management, and formulating sector policy frameworks and investment programs for health, education and agriculture.

32. Progress towards the CAS objectives over the last two years has been good. Policy performance was particularly strong, and the pace of reform accelerated. All of the base case indicators were met, although in a few cases with some months' delay or with a slower timetable (e.g., private management of customs and the liberalization of cashew marketing). The Bank's assistance program wound up concentrating heavily on improving the existing portfolio of over twenty projects (paras. 56-59). Only two new IDA operations (health and adjustment) and one GEF operation were added to the portfolio. Non-lending advice in areas such as energy, transport and fiscal management, and aid coordination figured prominently.

Lessons and the Future Agenda

33. In February 1997, the Mozambique Country Team and a senior Government team, led by the Minister of Finance, held a two-day strategy retreat to review the Government/Bank program and to trace future priority areas. In those discussions and other consultations on this CAS, it was affirmed that the Government and the Bank agree on overall objectives and reform directions. There was also a consensus that the working relationship between the Government and the Bank had improved, and that both had made some progress in defining clearer priorities and simplifying procedures, although more work was needed.

34. Despite the consensus on objectives and the improving relationship, tensions in the policy dialog persist. While continued reform is essential to rapid growth, the Government's scope of action will increasingly depend on creating ownership of reforms among the public. Powerful elites who oppose some reforms, active debate within the National Assembly and the local media, and the approach of local and national elections have begun to influence decision-making within the Government. For example, in 1995, Bank staff recommended a phasing out of the cashew

export tax over a maximum of five years to promote better prices for farmers and a more competitive domestic industry. When the Government lowered the tax in 1995 and again in 1996 to fourteen percent, it encountered strong opposition from domestic cashew nut processors in favor of continued protection. Further reductions of the export tax are presently on hold.

35. There are other areas where the Government and the Bank disagree on the timing, priority, or feasibility of specific reforms or actions. Bank staff favor a more rapid and deeper trade reform, building on the reforms undertaken last year, and stronger efforts to increase revenues. Also, the Bank has urged the Government to engage internationally renowned financial, legal and technical advisers to help ensure that the Government derives maximum fiscal benefit from the “megaprojects” and that these projects contribute as much as possible to broad-based growth. The Bank has also encouraged the Government to place greater priority on environmental management, including carrying out of a regional environmental assessment linked to the Maputo Corridor Initiative. Finally, the Bank would like to see the Government take on a greater leadership role and become more assertive in setting policy directions and coordinating donor assistance at the sector level. So far, action has been relatively slow on these fronts.

36. For its part, the Government would like to see the Bank become more “user-friendly”, i.e., more knowledgeable about and sensitive to local conditions and constraints, more flexible in its policies and procedures, and more responsive to ad-hoc requests. The Government would also like to see the Bank expand its activities to include technical and vocational training, tourism, and targeted support for rural marketing; to be more active in promoting the use of national consultants and firms in IDA and other donor-financed programs; and to have fewer specific conditionalities in its operations and in this CAS.

37. Regarding future directions for the Bank’s program, the Mozambican and Bank teams agreed that the emphasis in the last CAS on ***broad-based, rapid growth, centered on rural development*** should be reinforced. As the pace of change increases, capacity and infrastructure constraints are becoming increasingly binding. Moreover, while development is occurring rapidly in Maputo and more generally in southern Mozambique, there is growing concern that other regions of the country - and the majority of the country’s poor - will be left behind. Accordingly, ***infrastructure rehabilitation, capacity building, increasing Mozambican participation*** in new or newly privatized enterprises ***and public sector reform*** were identified as areas for greater effort in the CAS. These themes were also echoed in a series of meetings on the Bank’s strategy carried out with civil society and other donors during the course of 1997 (paras. 52-53).

38. In addition, changing circumstances are bringing new challenges and opportunities. Political changes in South Africa and the Democratic Republic of the Congo have brought possibilities for ***enhanced regional cooperation***. The evolving prospects for “megaprojects” and other investments in Mozambique point to the need for greater attention to ***environmental assessment, management, and safeguards***. These developments have already resulted in an ***expanded IFC role in advisory services and investment***, and ***MIGA*** has also recently approved its first guarantee. Use of additional Bank instruments, such as IBRD and IDA guarantees, is also being considered. Revenue increases from the “megaprojects” and the lessening of the debt burden through the HIPC initiative, coupled with the likelihood of declining aid levels, will mean a greater degree of self-sufficiency. This underscores the need for ***sound fiscal management***.

39. Finally, there are lessons from the current portfolio. The Bank's commitment to Mozambique during the war years and immediate post-war period led to rapid portfolio growth and a diverse set of activities in a range of sectors. Experience with IDA's portfolio, and particularly with the sector investment programs (SIPs), has underscored the importance of sustainable investment, a reduction in long-term foreign technical assistance, designing projects to enhance local capacity-building, more realism in disbursement schedules, reforms in public sector incentives and performance standards, and closer donor coordination. While SIPs in major sectors hold considerable promise in helping to address these issues, the need for consensus-building among the various partners and strengthening of coordination mechanisms have translated into slower than expected implementation and disbursements during the startup phases.

40. Explicit recognition has also been given to the need for more focus in the IDA portfolio. This process of focusing and introducing greater selectivity has begun: The number of tasks within the work program is being progressively reduced, and IDA is concentrating more on critical subsectors (e.g., basic education and health within the social sectors, transport and water within infrastructure). In a number of sectors, other donors are playing a leading role (e.g., the European Commission in tourism; the Netherlands in environment; Sweden in public sector reform) (Box 3). Nonetheless, narrowing the scope of IDA's activities will take some time, particularly as the Government recognizes that one of the Bank's strengths is its ability to assist in

Box 3. Key Donors in Selected Sectors

Key Donors	Selected Sectors						
	Agr.	Water	Edu.	Env.	Health	Pub. Adm	Roads
AFDB	X	X	X	X	X		X
Canada		X	X				
Denmark	X*	X	X	X	X		X
EC	X		X		X		X
France		X					
Finland	X		X	X	X		
Germany	X	X					
Italy	X	X			X		
Netherlands	X	X*	X	X*	X		
Norway	X		X		X	X	X
Portugal	X	X	X		X		
Sweden	X		X*			X*	X
Switzerland		X*			X*		X
UK	X		X	X		X	
UN Agencies	X	X*	X	X	X		X
US	X		X	X	X		X*

* An asterisk indicates the lead donor in the sector

aid coordination at the sectoral level.

Objectives and Strategic Priorities

41. The overarching objective of the Bank's assistance to Mozambique remains unchanged from the last CAS: it is to support the Government's program for poverty reduction through sustainable economic growth. Rapid growth is an absolute prerequisite if Mozambique is to significantly reduce poverty and improve living standards. Poverty-reducing growth in

Mozambique involves a shift of resources and opportunities towards rural areas where the poorest live. Based on the lessons learned during the last CAS period and on Mozambique's changing circumstances, the Country Team has defined three strategic priorities. These are:

- Promoting rapid, broad-based private sector-led growth
- Capacity-building and developing human resources
- Strengthening development partnerships

A recently initiated growth prospects study, conducted jointly with the Government, will provide the analytical framework for the Bank's program. Also, IDA will continue its support for the Government's poverty assessment work. Regional and gender disparities, along with beneficiary assessments, are already being taken into account in the design of the sector investment programs and other IDA-financed projects aimed at reaching the poor. With the completion of the poverty assessment and action plan in 1998, more precise data and analysis will be used to better focus Government and Bank gender-related and other efforts directed at poverty reduction and growth.

Promotion of Private Sector-Led Growth¹

42. A central pillar of the Bank's assistance strategy calls for promoting dynamic growth that is sustainable and broadly based from a geographical, environmental and socio-economic viewpoint. Private-sector led growth includes developing local enterprise as well as partnerships with foreign capital. Growth will be grounded in agriculture, which has significant export potential and provides income to eighty percent of the population. Harnessing the potential of other growth sectors, such as energy and transport, will also be important. As part of this effort, the Bank will support reforms in Mozambique's public sector which aim to put into place the policy and administrative environment conducive to growth, provide critical services and infrastructure for growth, and deliver social services to improve welfare and productivity.

43. The Bank will continue to support the Government's *economic reform agenda*. Consolidating macroeconomic stability through sound fiscal and monetary policies remains fundamental for growth. *Fiscal reforms* aimed at increasing revenues and improving the efficiency of public expenditures will be priorities. These reforms are urgently needed to reduce external imbalances, as well as to permit the public sector to deliver and maintain infrastructure and social services essential for growth and social welfare, but which cannot be provided by the private sector in the short term. Continuing tax, customs, and budget reform, along with the implementation of a medium-term expenditure framework, will be supported by the next adjustment operation, as well as through non-lending and ongoing operations. Along with tax reform, continuing *trade reform*, to further simplify the rate structure and limit exemptions, is expected to receive support under the next adjustment operation. Following on the privatization of the state banks, the Bank will also continue to focus on *financial sector development* to further competition, improve banking supervision, and increase efficiency in capital mobilization and use. Non-lending activities, along with several ongoing operations, will provide support. The Bank will continue to monitor completion of the Government's *privatization* program; support is being provided under the ongoing Industrial Enterprise Restructuring Project. In addition, through policy dialog and ongoing and planned operations, the Bank will continue to support

¹ Only highlights of Bank Group activities are presented below. Further details under each priority area are found in Annex 9

reforms in telecommunications, aviation, coastal shipping, electricity, port dredging, and water supply which are aimed at removing barriers to entry, increasing private sector involvement and *furthering competition* to improve efficiency, reduce costs, and improve services. Other *sectoral policy reforms* are being pursued under the sector investment programs. Last, but not least, the Bank is supporting *debt relief* under the HIPC Initiative.

44. Along with continuing economic policy reform, IDA, IFC, and MIGA are combining efforts to *support the development of high potential growth sectors*. These sectors include agriculture, energy, and transport. The linkages and synergies between high growth sectors and the rest of the economy will be a particular focus of the Growth Prospects study. The study will also provide recommendations on how to maximize the multiplier effects and manage the economy in light of the capital flows associated with large investment projects. IDA will also assist in providing complementary infrastructure and services for private sector development. It is particularly important that these investments are progressively extended beyond urban areas and especially into the central and northern areas of Mozambique where the majority of poor live. In addition to ongoing operations in agriculture and roads, IDA will support the PROAGRI agricultural sector investment program, a port and railway restructuring program, a third roads project (focusing on rural roads), two water projects and a possible urban project. IDA is also proposing to support strategic and financial advisory work in the telecommunications and energy sector, and an exploratory mining sector study. From this work, new operations could be developed for possible IDA, IFC, or MIGA support.

45. IFC views Mozambique as a country with significant potential for private sector development, and at the same time, private sector interest in IFC financing is increasing. This is reflected in IFC's recently approved funding of over US\$150 million in seven projects, in addition to its existing portfolio of over US\$10 million in five projects. This includes IFC's recent investments in the MOZAL aluminum smelter project, cotton companies, a commercial bank and several smaller projects financed under the African Enterprise Fund and IFC's Extended Reach Program (SEF). IFC is closely monitoring several large oil and gas, infrastructure, and manufacturing projects for possible future investment, along with efforts to increase support to small and medium enterprises. MIGA guarantee activity in Mozambique is increasing, based on growing interest from foreign investors. A MIGA guarantee for the MOZAL project has been approved by the Board, and there are currently 13 preliminary applications pending for investments in the country's agribusiness, tourism, oil and gas, manufacturing and service sectors. The Bank Group will also continue to lend support to the Mozambican and South African governments for the Maputo Corridor Development Program. A Maputo Corridor Team, drawing on expertise throughout the Bank Group, provides "one-stop" assistance.

46. Another area of effort is the *creation of a "business-friendly environment"*. IFC and IDA have already completed several studies on policy, regulatory, and administrative constraints to private sector development. On the basis of this work and through ongoing operations, IDA and IFC have supported the establishment of a more open and competitive financial system, legal and commercial reform, and the privatization program. This will continue to be an area of substantial non-lending support. The Bank has a Financial Sector specialist in the Resident Mission, and IFC placed an Investment Officer in Maputo last year. IFC is providing advisory services through the Foreign Investment Advisory Service (FIAS), the Africa Project Development Facility (APDF), and the African Management Services Company (AMSCO). These services, along with IDA support through a number of different operations and non-lending

activities, are helping to improve the private investment climate, develop capital markets and build capacity among small and medium-sized enterprises. Mozambique has also been a beneficiary of MIGA's efforts to attract foreign investment to Africa's mining sector. It has participated in MIGA's annual African Mining Conferences and CD-ROM. Mozambique has been selected by MIGA as one of two pilot SADC countries for marketing new investment and privatization opportunities through its internet-based IPAnet and Privatization Link. IDA is also supporting Annual Private Sector Conferences which have helped to establish an action agenda and active dialog between the Government and the business community.

47. ***Improved environmental management and assessment*** are vital to sustainable growth and poverty reduction. Given the fast-tracking of "megaprojects" and corridor development programs and Mozambique's growth prospects which are based largely on natural resources, environmental management issues are of growing concern. While other donors have so far taken the lead on environmental matters, continued weak institutional capabilities, the importance of these issues for future development, and the Bank's experience in this area argue for an increase in Bank involvement over the coming years. The Bank has an environmental specialist based in the Mozambique Resident Mission, who is providing advice and liaison with other donors. In addition to addressing environmental concerns in ongoing investment operations and the GEF Transfrontier Conservation Areas Project, the Bank is helping to prepare a GEF Coastal and Marine Biodiversity project. It is also preparing an environmental issues paper, for discussion with the Government and other donors, to help identify key issues, priority regulatory and institutional activities, and further areas for lending and non-lending support by IDA and GEF.

Capacity Building and Human Resource Development

48. Capacity building and human resource development will continue to be a central feature of IDA's strategy for some time to come. The African Governments' Capacity Building Initiative provides the framework for IDA's work in this area. IDA will assist in developing business and managerial skills and ***increasing Mozambican participation in the private sector*** through an Enterprise Development Project. In addition, more attention will also be given to developing local contractors and increasing their participation in IDA-financed contracts through specific training efforts and the appropriate design of procurement packages (pioneering work in this area is being done under the ROCS - Roads and Coastal Shipping - program). A second aspect of capacity building will be IDA's support for ***public sector reform and decentralization***. Ongoing assistance is being provided under the Legal and Public Sector Capacity Building Project and the Local Government Engineering and Reform Project. In addition, a continuing program of strengthening procurement, financial management, and auditing in IDA-supported projects is expected to bring some wider benefits in improving public sector transparency and governance. Also, along with non-lending advice, IDA is prepared to support decentralization and local capacity building through a rural action program, an urban operation, Institutional Development Grants, and the new adaptable lending instruments. Finally, IDA is supporting a range of capacity-building activities, including some directed specifically towards women, within its current portfolio. Of particular note is IDA support for sector investment programs which are designed to effectively utilize and build local capacity, and the pioneering work by IDA and EDI in advanced information technology to increase institutional capacity and communication.

49. Major efforts will continue in ***health and education***. Support for the health sector will be provided under the ongoing Health Sector Recovery Program. Urban water and sanitation

investments supported by IDA should also reduce the incidence of water-borne diseases. An integrated sector program for education, similar to the one in health, is being prepared. In both health and education, the emphasis is on expanding basic services at the community level while improving quality. Special attention is being devoted within these operations to women's health and reproductive issues and to increasing girls' enrollment rates, particularly in the north. In addition to these lending operations, EDI is working with the University Eduardo Mondlane on a Distance Learning Program and is planning several training activities in Mozambique over the next two fiscal years, in Environmental Economics and Management, in Microfinance, in Municipal Development, in Agricultural Policy and Institutional Development and in Effecting School Change. Finally, given the relatively low prevalence of the *AIDS* virus in Mozambique and the high prevalence in neighboring countries, timely efforts on AIDS prevention are particularly important. Advice and coordination, as part of the UNAIDS effort, are being provided by the Bank's resident mission. Efforts are also underway to incorporate AIDS education into a number of projects (e.g., in the health and transport sectors).

Strengthening Partnerships

50. Given the enormity of the poverty and development challenge in Mozambique, no one institution or donor can expect to make a significant impact on its own. A major thrust of the present CAS will be on furthering partnerships for Mozambique's development, i.e., how to maximize joint efforts to ensure more rapid progress towards poverty reduction and growth. It is an explicit choice in this CAS to focus not only on what the Bank proposes to do, but on how it intends to provide this assistance. This choice is based on three considerations. First, a more open and frank dialog between the Bank and the Government, leading to a greater sense of partnership, will strengthen the Bank's ability to be responsive and effective. Secondly, given the large number of donors in Mozambique, enhanced donor coordination is critical to the development effort. Thirdly, helping to forge closer ties among the Government, the private sector, NGOs, and civil society, as well as between Mozambique and neighboring countries, is likely to create synergies leading to more rapid growth and poverty reduction.

51. The foremost item on this agenda is ***strengthening the Bank Group/Government partnership***. CAS consultations, team retreats, Country Portfolio Performance Reviews (CPPRs), twice yearly portfolio monitoring meetings, Policy Framework discussions, collaborative economic and sector work, and joint training opportunities will be used to enhance teamwork and mutual understanding. Weekly meetings between the Governor of the Bank of Mozambique and the Bank's Resident Representative and quarterly meetings between the Minister of Finance and the Country Director will continue to assist in the timely resolution of outstanding operational and policy issues. As a further step, by end FY98, IDA portfolio management responsibility will be delegated to the Resident Representative. Finally, the Bank's Country Team will redouble its efforts to provide "just in time" assistance and advice upon request and to meet the new institutional service standards. These efforts are facilitated by a relatively large presence in the field. The Resident Mission is currently staffed with a Resident Representative, seven sector specialists (five locally recruited), and an IFC Investment Officer. Further plans to expand the office are under review.

52. A second critical area in the work program is ***resource mobilization and aid coordination with other bilateral and multilateral institutions***. A very active aid partnership supports Mozambique. *Overall country aid coordination* is focused on the Consultative Group, which the

Bank chairs. Increasingly, these meetings set common policy directions and discuss ways of increasing aid effectiveness. The Bank's close *partnership with the IMF* will continue during this CAS period. In addition to joint preparation of Policy Framework Papers (PFPs) and HIPC documents, Bank and Fund staff will continue to field joint missions when needed. There are also special efforts underway to collaborate more closely with other UN agencies, the European Commission, and the African Development Bank. In order to more effectively coordinate country assistance strategies and allow for a stronger focus on comparative advantages, the Bank is also planning to invite Mozambique's external aid partners and the Government to a country strategy review in Mozambique in 1998. The Bank will continue to be active in *local donor coordination* as well. The Bank's Resident Representative chairs periodic meetings of the local aid community to review progress on economic matters and attends similar meetings related to governance. The Bank has also been instrumental in promoting enhanced coordination through *sector investment programs (SIPs)* in a number of key sectors.

53. The Bank is also attempting to forge stronger *partnerships with civil society* in Mozambique. Frequent consultations take place with *private sector* associations and groups of individual investors. The Bank's Resident Mission also has a very active *NGO Outreach Program*. An NGO Steering Committee, including an NGO representing women, has been formed which meets periodically with Resident Mission and Headquarters staff. As part of the program, a review of the last CAS was conducted by NGO groups in each Mozambican province. Comments and suggestions were consolidated and used in the preparation of this CAS. Future activities will include exploring with the Government and resident NGOs opportunities for greater participation in the implementation of IDA-assisted activities. In addition, consultations periodically take place between the Mozambique Country Team and international NGOs.

54. *Regional partnerships* and partnerships with neighboring countries are critical for Mozambique's development prospects. The Bank is playing a role in strengthening these partnerships through support to the Maputo Corridor initiative. In addition, the Bank has recently prepared a draft regional assistance strategy for Southern Africa and is planning to increase its support -- initially through analytical work and Institutional Development Fund Grants -- for regional activities related to water resource management, infrastructure, banking and trade.

55. Finally, this CAS rests on *coordination and active participation within the Bank Group* itself. MIGA and IFC activities are fully integrated within the CAS priority of promoting dynamic private sector growth (paras. 44-46). EDI will expand its role in Mozambique with a series of activities focused on capacity-building objectives (paras. 48-49). Coordination within the Bank Group, and among the various sectors and activities, and between Headquarters and the field, is facilitated by an active and involved Country Team.

The Bank's Program - Portfolio Management

56. **The Current Portfolio.** There are currently 18 ongoing IDA-supported projects totaling about US\$840 million. About US\$425 million remain undisbursed (Annex 8). Because of several impending closings, by end-March 1998, the portfolio is expected to be down to about 15 operations, totaling less than US\$750 million, with about US\$350 million undisbursed.

57. **The Joint Portfolio Review and Current Portfolio Status**². Two years ago, the portfolio contained 24 operations and was performing poorly with a 13% disbursement ratio and disbursement lags of over 20%. At one point, 30% of the projects were rated unsatisfactory. The effectiveness of the Bank's support to Mozambique was first constrained by war and then by the weak implementation capacity of public institutions. Furthermore, as peace began to take hold, ongoing operations did not always reflect changing Government priorities and policies. Although some individual operations were restructured, little overall improvement occurred until a joint Portfolio Review was launched by the President of the Bank and the Prime Minister of Mozambique in September 1996.

58. The Portfolio Review was led by a group in the Ministry of Finance, and involved the Bank's Resident Mission, Bank team leaders, and Government staff from sector ministries and implementing agencies. As a result of the systematic six-month review, one agricultural project was canceled, five credits were amended or restructured, and it was decided that five of the seven projects scheduled to close by the end of 1998 would be closed as programmed, with no extension of closing date. Specific action plans were agreed for several other projects and for several cross-cutting issues - information flows, programming and budgeting, procurement, and financial management - which had adversely affected implementation across the board. By the end of FY97, portfolio indicators had improved significantly. The disbursement ratio had jumped to nearly 20%, and the disbursement lag had fallen below 17%. By January 1998, problem projects will constitute less than 10% of the portfolio. The remaining problem project has an action plan which is being closely monitored, and a series of amendments to improve implementation are under review by the Government and the Bank's project team.

59. Despite this improvement, there are currently six other projects potentially at risk. Two of these are in the agricultural sector, two are technical assistance (TA) projects for local government and financial sector reform, one is the most recent adjustment operation, and the final one is a household energy project which will close in the next few months. Economic management currently is still considered a risk factor for all IDA-assisted operations in Mozambique. The Government's improving performance in this area (paras. 13-16) is helping to substantially mitigate this risk. Without the economic management risk factor, only one agricultural project and the local government TA project would still be formally considered projects potentially at risk. Among project-specific risk factors, counterpart funding and slow disbursements are the most prevalent. Additional steps are being taken to ensure that these risk factors decrease over time and that portfolio performance continues to improve. The joint fiscal management review specifically addresses funding priorities and procedures (para. 14). The Bank and the Government have also agreed to undertake continuous joint portfolio monitoring, with six-monthly reviews to check portfolio status and review progress under action plans. By end-FY98, portfolio management will move closer to the client, with the Resident Representative, working with Bank team leaders, responsible for routine portfolio management and follow-up.

The Bank's Program - Scenarios, Proposed Lending and Triggers

60. **Base Case Scenario and Lending Program.** The base case scenario is one in which Mozambique continues to successfully confront its economic, political, social, and environmental

² Further details of the portfolio review and improvement plan can be found in Mozambique's Country Portfolio Management Paper, July 1997.

challenges. The Government would carry out the reform program outlined in the most recent PFP, and the current pace of reform would be maintained. As one or more of the large energy export projects come on stream, export growth would be strong (averaging about 11 percent per annum). Growth in agriculture, transport and industry would also be robust, with an average annual growth rate in nonenergy GDP of at least five percent. Mozambique would reach the HIPC completion point by mid-1999. On the political front, peace would continue to hold through local elections in 1998 and national elections in 1999.

61. The base case calls for expanded lending of about US\$480 million for FY98-00 in support of private sector growth, capacity building and human resource development (Annex 3). This expansion of IDA lending -- compared with new commitments totaling about US\$200 million in the FY95 to FY97 period -- is proposed because: a) complementary infrastructure investments are needed in the short term to support continued agricultural and industrial growth and a lessening of regional disparities; b) Mozambique has successfully emerged from the difficult post-war transition period which began in 1993; and c) following the portfolio review, portfolio performance has improved significantly, and over half of the projects in the current portfolio will be completed during this CAS period. All of the proposed operations would be investment operations except for one adjustment operation. Three of the investment operations (agriculture, education, and roads) would be SIPs. Of these, two (agriculture and roads) are possible candidates for Adaptable Program Loans. The Rural Action Program and the Enterprise Development Project could be developed first as Learning and Innovation Loans (LILs). With the exception of the water projects, all of the operations are in sectors where there have been previous IDA operations resulting in considerable capacity building and an acquired familiarity with Bank procedures. There is also a possibility that the base case over the next three years could include one or more IDA or IBRD enclave "guarantees" associated with some of the large-scale development projects currently under discussion. Finally, consistent with Board decisions on the HIPC Initiative, if the Government opts for a portion of the debt relief to be provided through interim measures, up to three-quarters of the lending program through the proposed completion point of mid-1999 could be in the form of grants. While Mozambique's HIPC eligibility *per se* does not have a direct impact on the size or composition of the base case program, debt relief to be provided under the initiative would reinforce the country's development prospects and the Bank's assistance strategy by bolstering investor confidence and freeing up some resources for social and infrastructure expenditures.

62. **Base Case Indicators.** Mozambique is currently operating in the base case. The indicators for the proposed base case lending program are monitored on an ongoing basis by Bank staff and include:

- Substantial adherence to the macroeconomic and structural policies and timetables for implementation outlined in the current PFP (paras 23-29). Particular attention will be paid to satisfactory progress regarding the following:
 - ◊ Implementation of an agricultural policy framework, including land policy, and of an accompanying investment program, conducive to the growth of small farmer agriculture.
 - ◊ Concessioning of the Maputo, Beira and Nacala Corridors to the private sector.
 - ◊ Continued implementation and completion of the privatization program.
 - ◊ Carrying out of environmental impact assessments on new investment projects.

- Satisfactory progress towards achieving social targets outlined for the HIPC initiative.
- Budget allocations in accordance with priorities and spending levels agreed to by the Government and its external partners during the SIPs' annual program reviews.
- Continued portfolio performance, as indicated by percentage of problem projects (target: less than 10%), disbursement ratio (target: greater than 20%) and disbursement lags (target: less than 20%).

63. **High Case.** The high case scenario, with total lending in FY98-00 of about US\$580 million, would advance urban, environmental and energy projects into the lending program. The high case would be similar to the base case with respect to macroeconomic performance and policies. However, it would be predicated on stronger performance on sectoral reforms, capacity building, and establishing an environment conducive to rapid growth. The amount of lending in the high case would be particularly linked to advances in capacity-building, as evidenced by progress on public sector reform and a strongly performing IDA portfolio. In addition to the base case indicators, additional triggers for the high case include:

- Agreement on sectoral policies and IDA-supported investment programs in the urban, environment and energy sectors.
- Initiation of a regional environmental impact study on the Maputo Corridor development area.
- Satisfactory progress in the formulation and implementation of an action plan and schedule for public sector reform, including the Government's planned actions to combat corruption.
- Further improvements in portfolio performance, with problem projects remaining below 10% and disbursement ratios exceeding 20%.

If a more intensive dialog between the Bank and the Government occurred in either the urban, environment, or energy sectors, leading to accelerated Government decisions and project preparation, operations in these sectors could also substitute for one or more operations in the base case lending program.

64. **Low Case Scenario, Lending Program and Triggers.** The low case would be characterized by widespread civil strife, a significant reversal of policy reforms, or a return of excessive macroeconomic instability. In the event of any of these occurrences, it is likely that portfolio performance would deteriorate rapidly. New IDA lending would be sharply curtailed and would not exceed US\$100 million during FY98-00. The lending program would include at most three investment operations. Only the first water project would go ahead, and the agriculture and education SIPs would be scaled back to specific investment projects, focusing on small farmer services and basic education rehabilitation. The rural action program would be delayed and converted into a social fund operation working through community groups.

65. The low case would be triggered by any of the following:

- Civil strife with serious disruption of economic activity and new investment.
- Serious shortfalls in implementation or significant reversals with respect to the macroeconomic and structural policies outlined in the most recent PFP, particularly with respect to: monetary and fiscal policy, the privatization program, customs and trade and tariff reform, social sector budget allocations, and agricultural marketing.
- A deterioration of portfolio performance as indicated by a percentage of problem projects in excess of 30% and a disbursement ratio of under 12% with growing disbursement lags.

The Bank's Program - Analytical Work and Policy Advice

66. The economic and sector work (ESW) program provides the analytical underpinning for all other aspects of the Bank's program. Given Mozambique's rapidly changing environment, analytical work is particularly important to provide a better understanding of economic realities and trends. Two major pieces of economic work, the Growth Prospects Paper and the Fiscal Management Review, are expected to assist the Government in formulating a medium-term development strategy. A cashew impact study will focus particularly on the impact of reforms on women who comprise a large part of the producers. Other studies are aimed at assisting in the development of sector strategies (Box 4).

Box: 4 Proposed ESW For FY98-00

- ◇ *Growth Prospects Paper*
 - ◇ *Fiscal Management Review*
 - ◇ *Cashew Impact Monitoring Study*
 - ◇ *Environmental Analysis and Strategy Development*
 - ◇ *Energy Strategy Note*
 - ◇ *Mining Sector Study*
-

67. In addition to ESW, formal and informal policy advice and technical support are prominent in the Bank's work program. The Bank, the IMF and the Government will prepare annual Policy Framework Papers. Also, the Bank, with the Fund, will provide ongoing assistance, including performance monitoring and papers for Board consideration, for the HIPC Initiative. Upon the Government's request, the Bank will continue to provide informal, "just-in-time" advice and technical support. Some of the areas are shown in Box 5.

Box: 5 "Just-In-Time" Policy Advice And Technical Support

- ◇ *Maputo Corridor Development Program*
 - ◇ *Telecommunications Dialog*
 - ◇ *Private Sector Conferences*
 - ◇ *Statistics Capacity-Building*
 - ◇ *Distance Learning Program*
 - ◇ *Public Sector Management*
 - ◇ *Environmental Assessment Advice*
 - ◇ *Cashew Working Group*
 - ◇ *Micro-Finance Development*
 - ◇ *Poverty Assessment Support*
-

Risks and Conclusion

68. The Bank's program in Mozambique can be characterized as medium-risk, but high reward. The devastation left by the war, serious capacity constraints, growing regional and urban/rural disparities, increasing pressure on natural resources and weak environmental management, and the fragility of a new democracy pose serious challenges for the nation's development and for the Bank's country assistance strategy. In particular, the growing public debate over economic policies and a growing perception that the majority of the population have not yet reaped the benefits of peace could threaten the continuity and pace of reform efforts or even, at its extreme, shatter the peace. Despite the risks, there is room for considerable optimism. Mozambique has made impressive progress on the economic, social and political fronts since the war ended. The robust growth rate, increases in agricultural production, and the good prospects for private investment augur well for economic development. The HIPC Initiative increases the probability that economic growth can be sustained. Moreover, the Government's strategy of investing in rural areas and increasing support to small-scale agriculture and social services - provided this is coupled with adequate environmental protection and management - could bring with it relatively rapid advances in poverty reduction. The Bank's Country Assistance Strategy, by focusing on promoting broad-based, sustainable, private sector-led growth, building capacity, and strengthening partnerships, is designed to reinforce Government efforts in these critical areas. Nonetheless, it is clear that Mozambique still has a long and difficult road ahead. For some time

to come, meeting the Bank's and the Mozambican Government's objective of reducing poverty will continue to be a true test of the Bank's ability to be responsive, cooperative, and effective.

James D. Wolfensohn
President

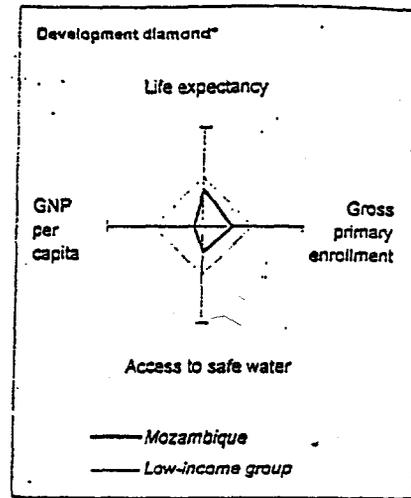
By: Gautam S. Kaji

Washington, D.C.
November 21, 1997

Mozambique at a glance

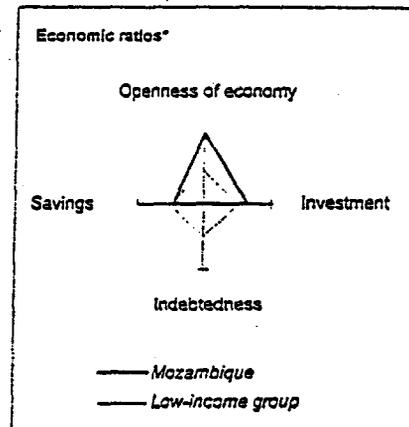
POVERTY and SOCIAL

	Mozambique	Sub-Saharan Africa	Low-income
Population mid-1996 (millions)	18.0	600	3,229
GNP per capita 1996 (US\$)	90	490	500
GNP 1996 (billions US\$)	1.8	294	1,601
Average annual growth, 1990-96			
Population (%)	4.0	2.7	1.7
Labor force (%)	..	2.6	1.7
Most recent estimate (latest year available since 1989)			
Poverty: headcount index (% of population)	..	..	..
Urban population (% of total population)	34	31	29
Life expectancy at birth (years)	47	52	63
Infant mortality (per 1,000 live births)	123	92	69
Child malnutrition (% of children under 5)	0	..	..
Access to safe water (% of population)	29	47	53
Illiteracy (% of population age 15+)	60	43	34
Gross primary enrollment (% of school-age population)	61	72	105
Male	69	78	112
Female	45	65	98



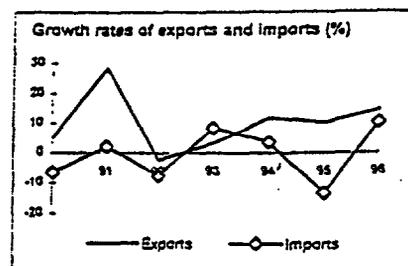
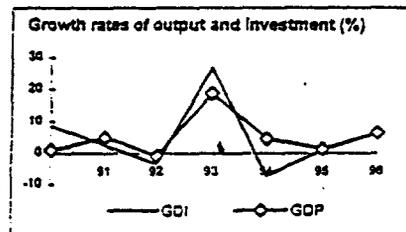
KEY ECONOMIC RATIOS and LONG-TERM TRENDS

	1975	1985	1995	1996	
GDP (billions US\$)	..	2.6	1.5	1.7	
Gross domestic investment/GDP	..	17.0	51.2	48.3	
Exports of goods and services/GDP	..	5.6	27.4	27.6	
Gross domestic savings/GDP	..	3.8	18.0	19.9	
Gross national savings/GDP	..	4.0	17.7	17.5	
Current account balance/GDP 1/	..	-17.2	-45.6	-38.9	
Interest payments/GDP 2/	..	3.0	3.4	3.0	
Total debt/GDP 2/	..	256.0	607.5	542.0	
Total debt service paid/exports 2/	..	95.5	26.9	26.3	
Present value of debt/GDP	
Present value of debt/exports	
(average annual growth)					
GDP	-6.5	5.8	1.4	6.4	6.1
GNP per capita	..	2.8	-1.3	5.7	3.6
Exports of goods and services	..	10.0	10.1	14.5	8.3



STRUCTURE of the ECONOMY

	1975	1985	1995	1996
(% of GDPtc)				
Agriculture	..	47.5	34.9	36.8
Industry	..	13.2	23.2	23.8
Manufacturing	0.0
Services	..	39.3	41.9	39.3
Private consumption	..	75.3	69.4	68.1
General government consumption	..	21.0	12.9	12.0
Imports of goods and services	..	18.3	60.6	56.0
(average annual growth)				
Agriculture	..	3.1	6.7	6.0
Industry	..	-1.6	12.2	10.2
Manufacturing
Services	..	12.5	-9.3	6.1
Private consumption	..	0.9	-4.7	7.3
General government consumption	..	2.8	-37.7	1.4
Gross domestic investment	..	4.3	1.2	6.5
Imports of goods and services	..	0.1	-13.4	10.1
Gross national product	..	5.5	3.0	9.3



Note: 1996 data are preliminary estimates.

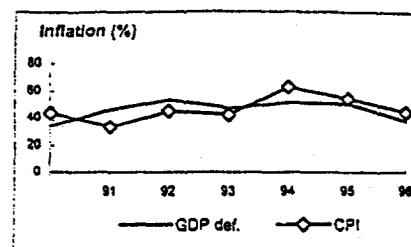
* The diamonds show four key indicators in the country (in bold) compared with its income-group average. If data are missing, the diamond will be incomplete.

1/ Before official capital grants.

2/ Paid after debt relief.

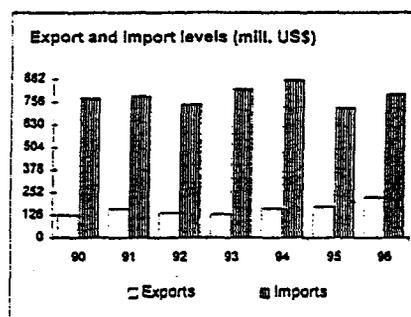
PRICES and GOVERNMENT FINANCE

	1975	1985	1995	1996
Domestic prices				
(% change)				
Consumer prices 1/	..	30.8	54.4	44.6
Implicit GDP deflator	..	33.1	50.4	37.9
Government finance				
(% of GDP)				
Current revenue	..	17.3	18.3	18.0
Current budget balance	..	-12.4	1.7	2.0
Overall surplus/deficit	..	-18.4	-20.8	-17.2



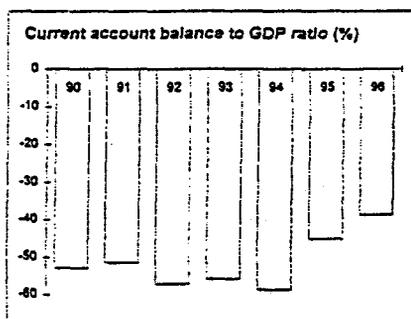
TRADE

	1975	1985	1995	1996
(millions US\$)				
Total exports (fob)	..	77	174	226
Cashew nuts and raw	..	12	13	45
Prawn	..	33	73	80
Manufactures	..	0	5	7
Total imports (cif)	..	381	727	802
Food	44	29
Fuel and energy	68	78
Capital goods	166	152
Export price index (1987=100)	..	86	94	99
Import price index (1987=100)	..	121	133	133
Terms of trade (1987=100)	..	70	70	75



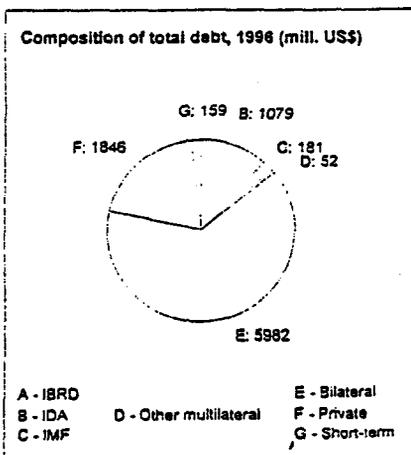
BALANCE of PAYMENTS

	1975	1985	1995	1996
(millions US\$)				
Exports of goods and services	..	143	407	479
Imports of goods and services	..	481	899	973
Resource balance	..	-339	-492	-494
Net income	..	-102	-185	-174
Net current transfers	0	0	0	0
Current account balance, before official capital transfers	..	-440	-677	-667
Financing items (net)	..	420	736	826
Changes in net reserves	..	21	-60	-158
Memo:				
Reserves including gold (mill. US\$) 2/	..	18	225	384
Conversion rate (local/US\$)	25.8	43.2	8,889.8	11,293.8



EXTERNAL DEBT and RESOURCE FLOWS

	1975	1985	1995	1996
(millions US\$)				
Total debt outstanding and disbursed 3/	0	2,706	9,017	9,300
IBRD	0	0	0	0
IDA	0	5	890	1,079
Total debt service 4/	0	42	422	375
IBRD	0	0	0	0
IDA	0	1	7	8
Composition of net resource flows				
Official grants	0	149	339	283
Official creditors	0	309	153	202
Private creditors	0	54	59	76
Foreign direct investment	..	0	45	73
Portfolio equity	0	0	0	0
World Bank program				
Commitments	0	46	99	0
Disbursements	0	5	160	221
Principal repayments	0	1	1	1
Net flows	0	3	159	220
Interest payments	0	0	6	7
Net transfers	0	3	153	213



Development Economics

1/ Period average.

2/ Gross foreign assets of the banking system.

3/ For 1995 and 1996, figures include non-guaranteed private sector debt and debt to Russia.

4/ Scheduled before debt relief.

11/13/97

Mozambique - Selected Indicators of Bank Portfolio Performance and Management

Indicator	1995	1996	1997	1998
<i>Portfolio Assessment</i>				
Number of Projects under implementation ^a	24	24	23	18
Average implementation period (years) ^b	3.93	4.58	5.22	5.11
Percent of problem projects ^{a, c}				
by number	12.50	29.17	17.39	11.11
by amount	7.03	15.73	9.12	9.81
Percent of projects at risk ^{a, d}				
by number	39.13	54.55	38.89	44.44
by amount	34.96	48.05	32.12	33.78
Disbursement ratio (%) ^e	13.20	16.09	19.37	6.40
<i>Portfolio Management</i>				
CPPR during the year (yes/no)	Yes	No	Yes	Yes
Supervision resources (total US\$ thousands)	1,774.51	1,711.17	1,709.49	393.36
Average Supervision (US\$/project)	73.94	71.30	74.33	21.85

Memorandum item	Since FY80	Last five FYs
Projects evaluated by OED		
by number	7	6
by amount (US\$ millions)	499.5	454.5
Percent rated U or HU		
by number	14.3	16.7
by amount	12.0	13.2

- a. As shown in the Annual Report on Portfolio Performance (except for current FY)
- b. Average age of projects in the Bank's country portfolio.
- c. Percent of projects rated U or HU on development objectives (DO) and/or implementation progress (IP).
- d. As defined under the Portfolio Improvement Program.
- e. Ratio of disbursements during the year to the undisbursed balance of the Bank's portfolio at the beginning of the year: investment projects only.

Mozambique - Bank Group Program Summary, FY 1998-2000

Proposed IBRD/IDA Base-Case Lending Program, FY 1998-2000^a

<i>FY</i>	<i>Project</i>	<i>US\$ (M)</i>	<i>Strategic rewards^b (H/M/L)</i>	<i>Implementation^b risks (H/M/L)</i>
1998	NATIONAL WATER DEVELOPMENT I	30.0	M	M
	Subtotal	30.0		
1999	AGRICULTURE SECTOR PROGRAM (PROAGRI)	60.0	H	H
	ECONOMIC RECOVERY CREDIT IV	100.0	H	M
	EDUCATION SECTOR INVESTMENT	60.0	H	M
	NATIONAL WATER DEVELOPMENT II	50.0	M	M
	<i>(GEF- Coastal Biodiversity)</i>		M	M
	Subtotal	270.0		
2000	ENTERPRISE DEVELOPMENT PROJECT (PODE)	25.0	H	M
	RAIL & PORT RESTRUCTURING PROGRAM	45.0	H	H
	ROADS AND COASTAL SHIPPING III	80.0	H	M
	RURAL ACTION/DECENTRALIZATION PROGRAM	30.0	M	M
	Subtotal	180.0		
	Total, FY 1998-2000	480.0		

a. This table presents the proposed program for the next three fiscal years.

b. For each project, indicate whether the strategic rewards and implementation risks are expected to be high (H), moderate (M), or low (L).

Mozambique - IBRD/IDA Lending Program

Category	Past		Current		Planned ^a		
	1995	1996	1997	1998	1999	2000	2001
Commitments (US\$m)	0.0	98.7	100.0	29.0	270.0	180	160
Sector (%) ^b							
Agriculture	0.0	0.0	0.0	0.0	22.2	0.0	0.0
Education	0.0	0.0	0.0	0.0	22.2	0.0	0.0
Environment	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Multisector	0.0	0.0	100.0	0.0	37.0	0.0	62.5
Populn, Hlth & Num	0.0	100.0	0.0	0.0	0.0	0.0	0.0
Public Sector Mgmt.	0.0	0.0	0.0	0.0	0.0	16.6	0.0
Transportation	0.0	0.0	0.0	0.0	0.0	69.5	0.0
Urban Development	0.0	0.0	0.0	0.0	0.0	0.0	37.5
Water Supply & Sanit	0.0	0.0	0.0	100.0	18.5	0.0	0.0
Private Sector Development	0.0	0.0	0.0	0.0	0.0	13.9	0.0
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Lending instrument (%)							
Adjustment loans ^c	0.0	0.0	100.0	0.0	37.0	0.0	62.5
Specific investment loans and others	0.0	100.0	0.0	100.0	63.0	100.0	37.5
TOTAL	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Disbursements (US\$m)							
Adjustment loans ^c	105.8	46.6	149.0	50.0	50.0	50.0	50.0
Specific investment loans and others	91.2	104.6	114.6	120.0	125.0	125.0	130.0
Repayments (US\$m)	0.0	.7	1.1	2.8	4.8	7.3	9.2
Interest (US\$m)	5.0	6.3	7.5	8.8	9.4	10.0	11.3

^a Ranges that reflect the base-case (i.e., most likely) Scenario. For IDA countries, planned commitments are not presented by FY but as a three-year-total range; the figures are shown in brackets. A footnote indicates if the pattern of IDA lending has unusual characteristics (e.g., a high degree of frontloading, backloading, or lumpiness). For blend countries, planned IBRD and IDA commitments are presented for each year as a combined total.

^b For future lending, rounded to the nearest 0 or 5%. To convey the thrust of country strategy more clearly, staff may aggregate sectors.

^c Structural adjustment loans, sector adjustment loans, and debt service reduction loans.

Note:

Disbursement data is updated at the end of the first week of the month.

Mozambique - IFC and MIGA Program, FY95-98

Category	Past			
	1995	1996	1997	1998
IFC approvals (US\$m) ^a	0.00	29.56	124.30	0.00
Sector (%)				
	0.00	0.00	0.00	0.00
Cement & Construction	0.00	34.00	0.00	0.00
Financial Services	0.00	51.00	0.00	0.00
Food & Agro-Business	0.00	15.00	2.00	0.00
Hotels & Tourism	0.00	0.00	0.00	0.00
Manufacturing	0.00	0.00	98.00	0.00
TOTAL	100.00	100.00	100.00	100.00
Investment instrument (%)				
Loans	0.00	83.00	48.00	0.00
Equity	0.00	17.00	0.00	0.00
Quasi-Equity ^b	0.00	0.00	52.00	0.00
Other	0.00	0.00	0.00	0.00
TOTAL	100.00	100.00	100.00	100.00
MIGA guarantees (US\$m)	0.00	0.00	0.00	0.00
MIGA commitments (US\$m)	0.00	0.00	0.00	40.00

^aIncludes AEF projects.

^bIncludes quasi-equity types of both loan and equity instruments.

Mozambique—Summary of Nonlending Services

<i>Product</i>	<i>Completion FY</i>	<i>Audience^a</i>	<i>Objective^b</i>
Recent Completions			
Impediments to Industrial Recovery	95	Government, Bank	Problem Solving
Agricultural Sector Memorandum	96	Bank	Problem Solving
Evaluating Impact of Privatization	96	Government, Bank, Public Dissemination	Knowledge Generation
Fiscal Management Review	96	Government, Donors	Problem Solving
Policy Framework Paper	97	Government, Bank, Donors	Problem Solving
Agriculture Pricing & Marketing	97	Bank, Government	Problem Solving, Knowledge Generation
Underway			
HIPC	99	Donors, Bank	Problem Solving
Fiscal Management Reviews	98	Government, Donors	Problem Solving
Maputo Corridor	Ongoing	Government, Bank	Problem Solving
Cashew Study	99	Government, Public Dissemination	Knowledge Generation, Public Debate
Environmental Issues/ Strategy	98	Government, Bank, Donors	Problem Solving, Knowledge Generation
Growth Prospects Paper	98	Government, Bank, Donors, Public Dissemination	Public Debate, Knowledge Generation
Policy Framework Paper	98	Government, Bank, Donors	Problem Solving
Planned			
Fiscal Management Reviews	99/00	Government, Donors	Problem Solving
Energy Strategy Note	99	Government, Bank	Problem Solving
Mining Sector	00	Government, Bank	Problem Solving
Statistics Capacity Building	Ongoing	Government, Bank, Donors, Public Dissemination	Knowledge Generation
Environmental Assessment Advice	Ongoing	Government	Problem Solving
Public Sector Management Advice	Ongoing	Government	Problem Solving
AIDS Follow-up	Ongoing	Government, Bank, Public Dissemination	Knowledge Generation, Problem Solving
Policy Framework Paper	99/00	Government, Bank, Donors	Problem Solving

- a. Government, donor, Bank, public dissemination.
b. Knowledge generation, public debate, problem-solving.

Mozambique Social Indicators

	Latest single year			Same region/income group	
	1970-75	1980-85	1990-96	Sub-Saharan Africa	Low-income
POPULATION					
Total population, mid-year (millions)	10.5	13.5	18.0	583.4	3,179.9
- Growth rate (% annual average)	2.5	1.6	2.6	2.8	1.6
Urban population (% of population)	8.6	19.4	34.0	31.1	28.6
Total fertility rate (births per woman)	6.5	6.5	6.2	5.7	3.2
POVERTY					
<i>(% of population)</i>					
National headcount index	..	..	..	..	..
Urban headcount index	..	..	..	..	..
Rural headcount index	..	..	..	..	..
INCOME					
GNP per capita (US\$)	..	140	90	490	430
Consumer price index (1990=100)	..	..	..	..	..
Food price index (1990=100)	..	..	..	..	..
INCOME/CONSUMPTION DISTRIBUTION					
<i>(% of income or consumption)</i>					
Lowest quintile	..	..	..	..	..
Highest quintile	..	..	..	..	..
SOCIAL INDICATORS					
Public expenditure					
<i>(% of GDP)</i>					
Health	..	..	4.6	..	..
Education	..	..	2.6	..	..
Social security and welfare	..	..	..	..	..
Net primary school enrollment rate					
<i>(% of age group)</i>					
Total	..	51	41	..	..
Male	..	55	46	..	..
Female	..	46	35	..	..
Access to safe water					
<i>(% of population)</i>					
Total	..	9.2	28.0	47.0	53.0
Urban	..	82.0	44.0	..	..
Rural	2.0	2.0	17.0	..	..
Immunization rate					
<i>(% under 12 months)</i>					
Measles	..	39	71	60	77
DPT	..	29	57	58	80
Child malnutrition (% under 5 years)	..	..	..	..	42
Life expectancy at birth					
<i>(years)</i>					
Total	42	44	47	52	63
Male	41	43	45	51	62
Female	44	46	48	54	64
Mortality					
Infant (per thousand live births)	168	135	128	92	69
Under 5 (per thousand live births)	..	..	190	157	104
Adult (15-59)	..	..	431	433	244
Male (per 1,000 population)	..	..	339	359	211
Female (per 1,000 population)	..	..	..	..	..
Maternal (per 100,000 live births)	..	300	1,512	..	..

Mozambique - Key Economic Indicators

Indicator	Actuals		Estimate		Projected		
	1994	1995	1996	1997	1998	1999	2000
National accounts (as % GDP at current market prices)							
Gross domestic product	100.0	100.0	100.0	100.0	100.0	100.0	100.0
Agriculture ^a	28.8	30.2	32.1	32.5	32.4	32.6	31.7
Industry ^a	17.9	20.1	20.7	19.8	20.5	20.3	21.5
Services ^a	40.7	36.2	34.2	33.3	32.2	31.5	30.7
Total Consumption	94.3	82.0	80.1	82.1	80.8	78.5	76.2
Gross domestic fixed investment ^b	51.0	51.2	48.3	47.2	40.3	49.7	46.8
Government investment	20.9	19.0	16.8	18.0	18.2	17.4	16.3
Private investment (includes increase in stocks)	30.1	32.2	31.5	29.2	22.0	32.3	30.5
Exports (GNFS) ^c	24.3	27.4	27.6	25.9	29.8	29.6	32.1
Imports (GNFS)	69.6	60.6	56.0	55.2	50.8	57.8	55.0
Gross domestic savings	5.7	18.0	19.9	17.9	19.2	21.5	23.8
Gross national savings ^d	15.7	17.7	17.5	17.8	17.7	19.4	19.8
<i>Memorandum items</i>							
Gross domestic product (US\$ million at current prices)	1462	1484	1714	1961	2213	2352	2528
Gross national product per capita (US\$, Atlas method)	80.0	80.0	90.0	90.0	100.0	110.0	110.0
Real annual growth rates (% calculated from 1987 prices)							
Gross domestic product at market prices	4.5%	1.4%	6.4%	6.6%	10.1%	4.8%	8.3%
Gross Domestic Income	4.3%	1.9%	7.9%	8.1%	10.5%	5.0%	8.7%
Real annual per capita growth rates (% calculated from 1987 prices)							
Gross domestic product at market prices	-2.0%	-3.3%	2.8%	3.7%	7.3%	2.1%	5.5%
Total consumption	2.7%	-16.0%	2.8%	10.9%	4.8%	0.7%	1.2%
Private consumption	-1.3%	-9.2%	3.7%	8.1%	4.2%	-0.1%	1.8%

(continued)

Mozambique - Key Economic Indicators
(Continued)

Indicator	Actuals		Estimate		Projected		
	1994	1995	1996	1997	1998	1999	2000
Balance of Payments (US\$m)							
Exports (GNFS) ^c	355.1	406.9	479.1	507.5	658.6	696.8	811.4
Merchandise FOB	164.0	174.3	225.9	234.5	361.6	375.5	463.6
Imports (GNFS) ^c	1017.5	899.2	972.6	1082.4	1124.9	1359.8	1391.3
Merchandise FOB	881.0	727.0	801.5	894.6	937.8	1169.8	1197.7
Resource balance	-662.4	-492.3	-493.5	-575.0	-466.3	-663.0	-579.9
Net private current transfers	0.0	0.0	0.0	80.0	60.0	80.0	80.0
Current account balance (after official capital grants)	-299.7	-337.6	-384.5	-375.6	-345.3	-558.7	-528.5
Net private foreign direct investment	35.0	45.0	72.5	85.0	97.7	105.6	112.9
Long-term loans (net) ^d	-44.7	63.8	227.0	125.2	4.1	152.2	16.8
Official	-44.7	-30.0	78.3	43.6	14.1	21.6	-85.3
Private	0.0	93.8	148.7	81.6	-10.0	130.6	102.1
Other capital (net, including errors and omissions)	361.8	288.4	243.2	255.3	274.3	328.5	448.8
Change in reserves ^f	-52.4	-59.6	-158.2	-89.9	-30.9	-27.6	-50.0
<i>Memorandum items</i>							
Resource balance (% of GDP at current market prices)	-45.3%	-33.2%	-28.8%	-29.3%	-21.1%	-28.2%	-22.9%
Real annual growth rates (1987 prices)							
Merchandise exports (FOB)	23.8%	0.7%	22.5%	2.8%	54.5%	1.9%	20.9%
Primary	5.3%	1.7%	37.3%	1.7%	29.4%	8.4%	2.1%
Manufactures	..	51.4%	39.0%	26.2%	1.5%	2.9%	3.6%
Merchandise imports (CIF)	13.3%	-20.1%	0.6%	16.0%	3.7%	22.4%	0.8%
Public finance (as % of GDP at current market prices) ^g							
Current revenues	17.6	18.3	18.0	19.9	19.8	20.5	20.8
Current expenditures	22.9	16.6	16.0	19.5	20.0	20.6	20.1

(Continued)

**Mozambique - Key Economic Indicators
(Continued)**

Indicator	Actuals			Estimate		Projected	
	1994	1995	1996	1997	1998	1999	2000
Current account surplus (+) or deficit (-)	-5.2	1.7	1.9	0.3	-0.2	-0.1	0.7
Capital expenditure ^a	24.5	22.5	19.1	20.7	18.2	17.4	16.3
Foreign financing	30.6	22.0	18.9	21.4	18.8	17.5	15.6
Monetary indicators							
M2/GDP (at current market prices)	36.8	37.3	29.2	29.8	29.6	29.5	29.3
Growth of M2 (%)	57.6	54.7	15.0	19.3	17.9	13.9	15.5
Private sector credit growth / total credit growth (%)	125.7	139.4	171.2	121.8	106.9	100.0	100.0
Price indices(1987 =100)							
Merchandise export price index	88.8	93.8	99.2	100.2	100.0	102.0	104.2
Merchandise import price index	117.6	121.5	133.2	128.1	129.5	131.9	134.0
Merchandise terms of trade index	75.5	77.2	74.5	78.2	77.3	77.3	77.7
Real exchange rate (US\$/LCU) ⁱ	48.8	46.9	48.8	51.7	51.7	51.0	50.2
Real interest rates							
Consumer price index (% growth rate)	63.1%	54.4%	44.6%	6.9%	8.1%	7.9%	7.9%
GDP deflator (% growth rate)	51.6%	50.4%	37.9%	9.9%	7.8%	9.1%	7.2%

* Based on revised accounts from National Planning Commission.

a. GDP components are estimated at factor cost.

b. Public investment in national accounts exclude grant finance technical assistance.

c. "GNFS" denotes "goods and nonfactor services."

d. Includes net unrequited transfers excluding official capital grants.

e. Based on scheduled payments before debt relief.

f. Includes use of IMF resources.

g. Refers to Central Government.

h. Includes grant financed technical assistance until 1997.

i. "LCU" denotes "local currency units." An increase in US\$/LCU denotes appreciation.

- Mozambique - Key Exposure Indicators

Indicator	Actuals		Estimate		Projected		
	1994	1995	1996	1997	1998	1999	2000
Total debt outstanding and disbursed (TDO) (US\$m) ^{ab}	5483.0	9017.1	9299.7	6736.3	7029.4	6789.7	6990.3
Net disbursements (US\$m) ^{ab}	219.1	223.8	292.4	290.5	293.2	228.8	200.6
Total debt service (TDS) (US\$m) ^{ab}	117.3	109.6	126.2	113.3	230.3	284.5	330.9
Debt and debt service indicators (%)							
TDO/XGS ^c	1544.1	2216.0	1941.1	1327.4	1067.4	974.4	861.5
TDO/GDP	375.0	607.5	542.4	343.5	317.7	288.7	276.6
TDS/XGS	33.0	26.9	26.3	22.3	35.0	40.8	40.8

- a. Includes public and publicly guaranteed debt, private nonguaranteed, use of IMF credits and net short-term capital. Before 1995, debt excludes private non-guaranteed and debt to Russia.
- b. After assumed debt rescheduling. Includes 1984 and 1987 reschedulings with Paris Club.
- c. "XGS" denotes exports of goods and services, including workers' remittances.

Status of Bank Group Operations in Mozambique
IBRD Loans and IDA Credits in the Operations Portfolio

Project ID	Loan or Credit No.	Fiscal Year	Borrower	Purpose	Original Amount in US\$ Millions				Difference Between expected and actual disbursements a/		Last ARPP Supervision Rating b/	
					IBRD	IDA	Cancellations	Undisbursed	Orig	Frm Rev'd	Dev Obj	Imp Prog
Number of Closed Loans/credits: 12												
Active Loans												
MZ-PE-1793	IDA20330	1989	GOVT	HSEHOLD EGY. CREDIT	0.00	22.00	0.00	7.89	5.89	6.11	S	S
MZ-PE-1794	IDA20820	1990	GOVT	SMALL AND MEDIUM-SCA	0.00	32.00	0.00	3.10	- .60	0.00	U	S
MZ-PE-1784	IDA20810	1990	GOVT	INDUSTRIAL ENTERPRIS	0.00	50.10	0.00	26.35	20.25	20.13	HS	S
MZ-PE-1762	IDA20660	1990	GOVT	ECONOMIC & FINANCE M	0.00	21.00	0.00	1.94	- .65	0.00	S	S
MZ-PE-1776	IDA22000	1991	GOVT	EDUCATION II	0.00	53.70	0.00	9.66	8.04	8.00	S	S
MZ-PE-1790	IDA23740	1992	GOVT	FIRST ROAD & COASTAL	0.00	74.30	0.00	26.11	23.81	0.00	S	S
MZ-PE-1781	IDA23370	1992	GOVT	AGR.SER. REHAB.	0.00	35.00	12.30	12.25	23.61	0.00	S	S
MZ-PE-1791	IDA25300	1993	GOVT	LOCAL GOVERNMENT EN	0.00	23.20	0.00	15.64	15.77	0.00	S	S
MZ-PE-1801	IDA24870	1993	GOVT	FOOD SECURITY	0.00	6.30	0.00	3.88	3.71	0.00	S	S
MZ-PE-1796	IDA24790	1993	GOVT	RURAL REHABILITATION	0.00	20.00	0.00	12.01	11.69	0.00	S	S
MZ-PE-1802	IDA24540	1993	GOVT	MAPUTO CORRIDOR	0.00	9.30	0.00	4.07	4.03	4.05	S	S
MZ-PE-1810	IDA24370	1993	GOVT	LEG & PUB SEC. CAPAC	0.00	15.50	2.93	5.02	7.90	5.22	S	S
MZ-PE-1797	IDA24360	1993	GOVT	CAPACITY BUILDING(HU	0.00	48.60	0.00	31.35	32.39	0.00	U	S
MZ-PE-1780	IDA26290	1994	GOVT	GAS ENGINEERING(ENGY	0.00	30.00	0.00	13.11	12.88	0.00	S	HS
MZ-PE-1811	IDA26070	1994	GOVT	FINANCE SECTOR CAPAC	0.00	9.00	0.00	5.91	5.63	0.00	S	S
MZ-PE-1804	IDA25990	1994	GOVT	2ND ROAD AND COSTAL	0.00	188.00	0.00	114.69	111.31	0.00	S	S
MZ-PE-1792	IDA27880	1996	GOVT	HEALTH SEC RECOVERY	0.00	98.70	0.00	86.65	93.80	0.00	S	S
MZ-PE-35922	IDAN0100	1997	GOVT	ERC III	0.00	100.00	0.00	47.62	52.35	0.00	S	S
Total					0.00	836.70	15.23	427.25	431.81	43.51		
					Active Loans	Closed Loans	Total					
Total Disbursed (IBRD and IDA):					404.55	791.22	1,195.77					
of which has been repaid:					0.00	2.25	2.25					
Total now held by IBRD and IDA:					821.47	759.12	1,580.59					
Amount sold :					0.00	0.00	0.00					
of which repaid :					0.00	0.00	0.00					
Total Undisbursed :					427.25	14.10	441.35					

a. Intended disbursements to date minus actual disbursements to date as projected at appraisal.

b. Following the FY94 Annual Review of Portfolio performance (ARPP), a letter based system was introduced (HS = highly Satisfactory, S = satisfactory, U = unsatisfactory, HU = highly unsatisfactory); see proposed Improvements in Project and Portfolio Performance Rating Methodology (SecM94-901), August 23, 1994.

Note:

Disbursement data is updated at the end of the first week of the month.

Mozambique Country Assistance Strategy Matrix FY98-00

Development Objectives	Diagnoses	Government's Strategy/Actions	Performance Indicators/Benchmarks	Bank Group Instruments
1. Promote broad-based, private sector-led growth				
<ul style="list-style-type: none"> • <i>Support macro-economic reform</i> 	<ul style="list-style-type: none"> • Good progress made recently. Growth averaging above 5% and exports growing strongly. Growth and exports are vulnerable to climatic shocks. • Inflation, 70% in 1994, has declined to single digits in 1996. Price stabilization has been aided by privatization of state-owned banks, as well as sound macroeconomic policies and increased food production. • Fiscal imbalances still remain. Deficit before grants large (17%). Increasing revenue will be fundamental to sustainability of public expenditure program as will increased selectivity in spending. • Mozambique among most heavily indebted countries. 	<ul style="list-style-type: none"> • Pursue sound macro-economic policies that ensure continued price stability and growth. • Reduce fiscal imbalances by increasing fiscal revenues: <ul style="list-style-type: none"> - contracting private management of customs and improved preshipment inspection services. - tariff reform which, <i>inter alia</i>, simplifies rates and reduces exemptions on import taxes. - reducing taxes while broadening the tax base and improving tax administration. - introducing a value add tax in mid-1998 and reviewing other direct taxes. • Improve fiscal sustainability by better prioritization and improved efficiency of expenditures: <ul style="list-style-type: none"> - improving budget management through the formulation of a <i>medium-term</i> expenditure framework and implementation of an Expenditure Management Reform Strategy (EMRS) during 1998-2001. 	<ul style="list-style-type: none"> • Maintain real growth of non energy GDP at an annual rate of at least 5%. • Maintain single digit inflation. • Maintain gross international reserves, at the equivalent of about four-five months of imports of goods and non-factor services. • <i>US\$140 million increase</i> in net foreign assets of the banking system. • Value added tax in place by mid-1998. • HIPC completion point reached by mid-1999. 	<p>IDA</p> <p>Non-lending</p> <ul style="list-style-type: none"> • HIPC Debt Initiative • Fiscal Management Reviews • Policy Framework Paper <p>Portfolio</p> <ul style="list-style-type: none"> • ERC III • Economic and Financial Management TA (ICR) • SERC (ICR) <p>Lending</p> <ul style="list-style-type: none"> • ERC IV (FY99) • ERC V (FY01)
<ul style="list-style-type: none"> • <i>Support development of high growth potential sectors</i> 	<ul style="list-style-type: none"> • Good economic potential, currently underexploited, based on abundant natural resources. Good prospects in agriculture, forestry and fishing; energy (natural gas, hydropower, and coal), tourism, and transportation. • Infrastructure and other services for private sector development, weak to begin with, decimated by war. • Risk that "megaprojects" will not contribute to poverty reduction. • Rural development key to both growth and poverty reduction. 	<ul style="list-style-type: none"> • Promote growth in agriculture, energy and transport, including: <ul style="list-style-type: none"> - implementing an agricultural sector program. - rehabilitating priority roads and bridges and improving maintenance under ongoing integrated roads and coastal shipping program (ROCS). - developing Maputo Corridor, jointly with the Government of South Africa, and developing Beira and Nacala transport corridors. - promoting energy exports with international private sector. - telecommunications reform. 	<ul style="list-style-type: none"> • PROAGRI program under implementation by end-1998. • <i>Satisfactory progress</i> on the ROCS program, including the rehabilitation of 15,000 kms of road by 2000. • <i>Comprehensive</i> restructuring plan for CFM, the national railway, including private concessioning of all three ports and railway lines by end-1998. • <i>Comprehensive</i> energy strategy developed by end-1998. 	<p>IDA</p> <p>Non-lending</p> <ul style="list-style-type: none"> • Growth Prospects Paper • Maputo Corridor Development Program • Energy Strategy Note • Cashew Impact Monitoring Study and Working Group • Telecommunication Dialog • Mining Sector <p>Lending</p> <ul style="list-style-type: none"> • ROCS III (FY00)*

* Possible Adaptable Program Credit.

Mozambique Country Assistance Strategy Matrix FY98-00

Development Objectives	Diagnosis	Government's Strategy/Actions	Performance Indicators/Benchmarks	Bank Group Instruments
		<p>- policy/institutional reform and investments in the urban and water sectors.</p> <ul style="list-style-type: none"> • Building links between "megaprojects" and the rest of the economy. 	<ul style="list-style-type: none"> • Increase in energy exports commencing in 1999. • Liberalization of telecommunications sector commencing in 1998. • Private management contracts in place for five major city water companies by 1999. 	<ul style="list-style-type: none"> • Rail and Ports (FY00) • PROAGRI (FY99)* • Water I (FY98) • Water II (FY99) • Urban Mgt. (FY01) • Lending Management Portfolio • Rural Rehabilitation • Ag. Services Rehab. • Gas Engineering • ROCS • ROCS II • Maputo Corr. Rev. • Household Energy • Ag. Rehab. Dev. (ICR) • Transport Rehab. Beira (ICR) <p>IFC</p> <p>Strategy Focus on sectors with potential for growth: (i) infrastructure; (ii) extractive industries; (iii) agricultural sectors with export possibilities; (iv) SME sector; (v) financial sector.</p> <p>Portfolio</p> <ul style="list-style-type: none"> • AEF Bonar Sociedad Pesqueria Ltd. • AEF Cahora Bassa Fisheries (CBF) • Industrias de Caju Mocita, SARL • Lomaco • Polana Hotel <p>Pending Commitment</p> <ul style="list-style-type: none"> • AEF Imprensa Agraria so

* Possible Adaptable Program Credit.

Mozambique Country Assistance Strategy Matrix FY98-00

Development Objectives	Diagnosis	Government's Strategy/Actions	Performance Indicators/Benchmarks	Bank Group Instruments
				<p>Sabie</p> <ul style="list-style-type: none"> • Companhia Agro-Pecuaria de Moçambique, Lda. • Mozal • SEF Companhia de Pescas da Zambesia, Lda. SEF Complexo Turistico de Xai-Xai, Lda. (CTOX) <p>MIGA</p> <ul style="list-style-type: none"> • Guarantee for MOZAL. • Thirteen other pending applications
<ul style="list-style-type: none"> • <i>Create business-friendly environment</i> 	<ul style="list-style-type: none"> • Following successful implementation to date of privatization program, private sector now accounting for an increasing share of nation's growing economic activity. Enabling private sector development will be key to growth. • Policy, regulatory and administrative constraints still act as impediments to private sector development; their removal will lower transaction costs and attract additional investment. • Financial sector, following substantial reforms including privatization of the two state banks and entry of several others, still in need of further development to support private sector. • Telecommunications and other key utility companies, still state owned and managed, provide inadequate and costly service. 	<ul style="list-style-type: none"> • Complete sale of all companies on the privatization rolls under the privatization program. • Simplify the legal and regulatory framework, including revision of the Commercial Code. • Deepen financial sector reforms by improving banking supervision and expanding the range of financial instruments and markets. • Review all other remaining public enterprises (mostly utilities), including telecommunications company, for privatization or management contracts. • Foster rural credit and microfinance networks. 	<ul style="list-style-type: none"> • Sale by 1999 of all companies currently on the privatization rolls under the privatization program. • Role of the Center for Investment Promotion (CPI) modified to enhance its investment promotion functions • Commercial Code revised by mid-2000. • Amendments to the Financial Institutions Law submitted to assembly by 1998. 	<p>IDA</p> <p>Non-lending</p> <ul style="list-style-type: none"> • Dialogue on telecommunications • Support private sector conferences • Statistics capacity building • Microfinance development <p>Lending</p> <ul style="list-style-type: none"> • Ent. Dev. (PODE)(FY00)* <p>Portfolio</p> <ul style="list-style-type: none"> • Financial Sector Capacity Building • Industrial Enterprise Restructuring <p>IFC/MIGA</p> <p>Strategy</p> <p>Continue to help the Government reduce the impediments for private sector development and provide financing and advisory services for financial sector</p>

* Possible Learning and Innovation Credit.

Mozambique Country Assistance Strategy Matrix FY98-00

Development Objectives	Diagnosis	Government's Strategy/Actions	Performance Indicators/Benchmarks	Bank Group Instruments
				<p>development.</p> <p>Advisory Program</p> <ul style="list-style-type: none"> • FIAS studies (Red Tape Analysis) • APDF projects • Assistance in privatization program <p>Pending Commitment</p> <ul style="list-style-type: none"> • AEF Afristem • Cimentos de Moçambique • Banco Internacional de Moçambique (BIM)
<ul style="list-style-type: none"> • <i>Improve environmental management and assessment</i> 	<ul style="list-style-type: none"> • Mozambique's potential economic growth almost entirely natural resource-based, making management of these resources essential for sustainable growth. • Rapid rate of investment and growth (including new "mega projects") risks having significant negative environmental impacts if not appropriately regulated. • Reported cases of illegal forestry activities, land grabbing, over-fishing and commercial wildlife poaching. • Deficiencies in water supply and sanitation creating serious environmental and health risks. • Weak institutional capacity to manage and protect natural resources through policy formulation, regulation, and enforcement. 	<ul style="list-style-type: none"> • As part of PROAGRI, develop a national forest and wildlife program and review existing natural resource legislation, including concession policies and the protection of community rights. • Adopt and regulate a land tenure policy framework that provides tenure security for smallholder farmers. • Develop and implement a national coastal zone management program. • Revise investment code to require environmental assessments. • Improve access to clean water in urban areas through privatization of the management of five major water companies. Improve supply of water to rural areas and small towns. • Ensure co-management of internationally shared water resources. 	<ul style="list-style-type: none"> • National agricultural program (PROAGRI) under implementation by 1999. • National forest and wildlife management program developed by end 1999. • New land law passed in 1997. Regulatory framework to be implemented. • National coastal zone management program launched in 1998. • Investment code revised in 1997 to require environmental assessments. • Private management contracts put into place for the water companies of the five largest cities by end-1998, followed by water tariff increases. • Development of water resource management strategy and framework for water allocation, pricing and demand management 	<p>IDA</p> <p>Non-lending</p> <ul style="list-style-type: none"> • Environmental Issues Analysis and Strategy Development • Environmental Assessment advice <p>Lending</p> <ul style="list-style-type: none"> • Coastal and Marine Biodiversity Project (GEF)(FY99) • Water I (FY98) • Water II (FY99) <p>Portfolio</p> <ul style="list-style-type: none"> • Transborder Conservation Areas (GEF)

Mozambique Country Assistance Strategy Matrix FY98-00

Development Objectives	Diagnosis	Government's Strategy/Actions	Performance Indicators/Benchmarks	Bank Group Instruments
			on key southern rivers by mid-1998. <ul style="list-style-type: none"> Initiation of a subregional environment assessment for the Maputo Corridor. 	
II. Build Capacity And Develop Human Resources				
<ul style="list-style-type: none"> Enable greater Mozambican participation in economic activities 	<ul style="list-style-type: none"> Low skills levels exacerbated by war. Weak financial capacity and management skills among local entrepreneurs. 	<ul style="list-style-type: none"> Develop local business and managerial skills. Facilitate financing for local businesses. Increase skills through project related and on-the-job training. Develop local contractors and increase their participation in investment projects. 	<ul style="list-style-type: none"> Increase in US\$ amount of IDA contracts awarded to local contractors. 	IDA Lending <ul style="list-style-type: none"> Ent. Dev. (PODE)(FY99) Portfolio All projects with civil works SME (ICR)
<ul style="list-style-type: none"> Improve public sector management 	<ul style="list-style-type: none"> Public sector institutions unable to effectively provide services. Inability to attract and retain qualified staff in public sector because of low and compressed salary scales; overstaffing not a significant issue. Low salaries exacerbating conditions under which corruption and crime grow. Decision-making centralized in Maputo - legacy of war and socialism. 	<ul style="list-style-type: none"> Reorganize civil service at the central and provincial levels; establish municipal governments; develop and implement a new human resource management and development system. Implement salary decompression along with phasing out of donor-financed ad hoc salary "topping up" schemes. Reform the budget to achieve greater rationality, efficiency and transparency in the distribution and use of public resources. Provide legal framework for decentralization, followed by decentralization of some public sector functions. Carry out program to combat corruption eg. custom reform; police reform. 	<ul style="list-style-type: none"> Budgetary Framework Law implemented; budgetary scenarios for the medium term developed; rules and procedures for budgetary execution simplified. Local elections held in 1998 in 23 cities and 10 towns. Formulation and implementation of an action plan and schedule for public sector reform, including plan to combat corruption. 	IDA Non-lending <ul style="list-style-type: none"> Public Sector Management Advice Fiscal Management Review EDI Training Courses Lending <ul style="list-style-type: none"> Rural Action Program (FY00)* Urban Development (FY01) Portfolio <ul style="list-style-type: none"> Actions to strengthen procurement, financial management and auditing throughout portfolio. Legal and Public Sector Capacity Building Local Govt. Reform
<ul style="list-style-type: none"> Improve education and health care 	<ul style="list-style-type: none"> Most social indicators extremely poor even by sub-Saharan African standards, although improving in post-war period. 	<ul style="list-style-type: none"> Implement integrated health sector program with special programs for women and children. Formulate and implement education 	<ul style="list-style-type: none"> Increase health coverage under the Health Sector Recovery Program from 40% of the population currently to 60% in the 	IDA Non-lending <ul style="list-style-type: none"> Distance Learning Program

* Possible Learning and Innovation Credit.

Mozambique Country Assistance Strategy Matrix FY98-00

Development Objectives	Diagnosis	Government's Strategy/Actions	Performance Indicators/Benchmarks	Bank Group Instruments
	<ul style="list-style-type: none"> • Social expenditures still low, but improving (increased in real terms by 20 percent in 1995 and 3 percent in 1996). • Health and education sectors characterized by low coverage and access to services, exacerbated by collapse of infrastructure during war and by limited fiscal resources. Large disparities in access by region and between rural and urban areas. Despite recent progress, improving primary school enrollment (ratio currently at 61 percent for total population; 45 percent for girls) and access to health care services (coverage currently less than 40 percent of population) remain priorities. • Quality of health and education services poor due to lack of trained teachers and health personnel and lack of materials. 	<p>sector investment program, with focus on expanding coverage of primary education especially for girls, reforming curricula, expanding teacher training, and improving quality.</p> <ul style="list-style-type: none"> • Allocate budget to prioritize social sector expenditures in line with sector expenditure programs and medium term expenditure framework to ensure real increases in social sector spending. • Complete poverty assessment and prepare national poverty action plan. 	<p>year 2000; increase in DPT vaccination coverage from 55 to 80%.</p> <ul style="list-style-type: none"> • Improved health outcomes: significant reductions in maternal and infant mortality rates. • Increased education coverage: primary school admission rate up to 80-86% by the year 2000 (from 75% in 1996). Special programs implemented for girls and provinces with lowest coverage. • Improvement in indicators of education quality: repetition and drop-out rates in primary education to be lowered to 14-17 % and 10-12 %, down from 24 and 14 % respectively. • National poverty assessment and poverty action plan completed by end-1998. 	<p>with the University-EDI</p> <p>Lending</p> <ul style="list-style-type: none"> • Education Sec. (FY99) <p>Portfolio</p> <ul style="list-style-type: none"> • Capacity Building (Human Resources) • Education II • Health Sector Recovery • Food Security • Health and Nutrition (ICR)
<ul style="list-style-type: none"> • Promote AIDS awareness and education 	<ul style="list-style-type: none"> • AIDS prevalence, low by regional standards, but increasing rapidly. 	<ul style="list-style-type: none"> • Implement national AIDS education and awareness program. 	<ul style="list-style-type: none"> • Slower increase in rate of new AIDS cases reported. 	<p>IDA</p> <p>Non-lending</p> <ul style="list-style-type: none"> • UNAIDS participation <p>Portfolio</p> <ul style="list-style-type: none"> • ROCs I, II • Health Sector Recovery

Mozambique Country Assistance Strategy Matrix FY98-00

Development Objectives	Diagnosis	Government's Strategy/Actions	Performance Indicators/Benchmarks	Bank Group Instruments
III. Strengthen Partnerships				
<ul style="list-style-type: none"> • <i>Improve Government/Bank Cooperation</i> 	<ul style="list-style-type: none"> • General agreement between Bank and Government on overall objectives and reform directions and continuous policy discussion between the Bank and Government on the reform program. • Divergence of views at times between Government and Bank over timing and priority of specific reforms creating tension in dialogue. • Bank staff not always knowledgeable about and sensitive to local concerns and sociopolitical constraints. 	<ul style="list-style-type: none"> • Weekly meetings between the Governor of the Central Bank and the World Bank Resident Representative; quarterly meetings held between Country Director and Minister of Finance. • IDA portfolio jointly reviewed by World Bank and Ministry of Planning and Finance in FY98. • CAS consultations, team retreats, PFP discussions, collaborative ESW, joint training to further policy dialogue and capacity building, improve Bank staff understanding of local conditions and constraints. 	<ul style="list-style-type: none"> • IDA portfolio management responsibility to be delegated to Resident Representative by end FY98. • Increased IDA assistance in the form of "just in time" advice upon request. • Increased Government commitment to and ownership of reform program. • More effective implementation of reforms and of projects. 	<p>IDA</p> <p>Non-lending</p> <ul style="list-style-type: none"> • CAS • CPPR and Gov't Retreats • Gen. Econ. Work
<ul style="list-style-type: none"> • <i>Mobilize resources and coordinate aid with other bilateral and multilateral institutions</i> 	<ul style="list-style-type: none"> • Mozambique highly dependent on external aid. A large number of donors, for many of whom Mozambique is a major program country, provide technical assistance, project, and budgetary support. • Need for improved coordination of partners' assistance. 	<ul style="list-style-type: none"> • Overall donor coordination through annual Consultative Group Meetings for Mozambique and the biannual SPA meetings, chaired by the Bank. • Local aid coordination, including ad hoc donor working groups (e.g., on the budget, governance). • Sectoral coordination through the development and implementation of sector expenditure programs. • Expenditure Management Reform to facilitate Government management and budgeting of all financing resources. 	<ul style="list-style-type: none"> • HIPC approvals. • External assistance sufficient to cover annual financing gaps. • SIPs in all key sectors (roads, education, health, agriculture) by 1999. 	<p>IDA</p> <p>Non-Lending</p> <ul style="list-style-type: none"> • CG Meetings/ Aid Coordination • SPA Meetings • Donor Strategy Meetings • Annual Meetings <p>Lending</p> <ul style="list-style-type: none"> • Ag. Sector (FY99) • Ed. Sector (FY99) <p>Portfolio</p>

Mozambique Country Assistance Strategy Matrix FY98-00

Development Objectives	Diagnosis	Government's Strategy/Actions	Performance Indicators/Benchmarks	Bank Group Instruments
<ul style="list-style-type: none"> • <i>Build partnership with civil society</i> 	<ul style="list-style-type: none"> • Civil society is having an ever-increasing role in the development process with democratization and development of a market economy. Interest groups have been instrumental in both championing and opposing specific reforms. 	<ul style="list-style-type: none"> • Consultations with NGOs and Private Sector. 	<ul style="list-style-type: none"> • Greater consensus on policies and programs. 	<p>IDA</p> <p>Non-lending</p> <ul style="list-style-type: none"> • NGO Outreach • IDF grant • Private Sector Conferences <p>IEC</p> <ul style="list-style-type: none"> • Investment officer in Maputo
<ul style="list-style-type: none"> • <i>Increase coordination and partnership within the Bank Group</i> 	<ul style="list-style-type: none"> • Bank Group increasingly coordinating efforts in the context of a Country Assistance Strategy with clear roles for MIGA and IFC (promotion of private sector led growth) and EDI (building of capacity). 	<ul style="list-style-type: none"> • Increased dialogue and familiarity with overall Bank Group Mozambique Program. 	<ul style="list-style-type: none"> • Consistency in Bank Group operations in Mozambique. 	<p>Bank Group</p> <p>Non-lending</p> <ul style="list-style-type: none"> • CT Meetings and Retreats

Mozambique—CAS Summary of Development Priorities

<i>Network area</i>	<i>Country performance^a</i>	<i>Major issue^b</i>	<i>Country priority^c</i>	<i>Bank priority^e</i>	<i>Reconciliation of country and Bank priorities^d</i>
Poverty Reduction & Economic Management					
• Poverty reduction	Good	Rural Poverty	High	High	Dialogue Ongoing
• Economic policy	Good	Government Revenue	Moderate	High	
• Public sector	Fair	Civil Service Reform	Moderate	Moderate	
• Gender	Fair	Poverty	Moderate	Moderate	
Human Development					
• Education	Fair	Access, quality	High	High	Government and other donors in the lead
• Health, nutrition & population	Good	Training, access	High	High	
• Social protection	Fair	Rural poor	High	Moderate	
Environmentally & Socially Sustainable Development					
• Rural development	Fair	Small Farmer Development	High	High	Dialogue Ongoing
• Environment	Fair	Natural Resource Management	Moderate	High	
• Social development	Fair	Civil Society Participation	Moderate	High	
Finance, Private Sector & Infrastructure					
• Financial sector	Good	Broadening and deepening markets	High	High	Dialogue Ongoing
• Private sector	Good	Administrative constraints	Moderate	High	
• Energy & mining	Good	Energy exports	High	High	Dialogue is narrowing differences
• Infrastructure	Fair	Financing of roads maintenance	Moderate	High	

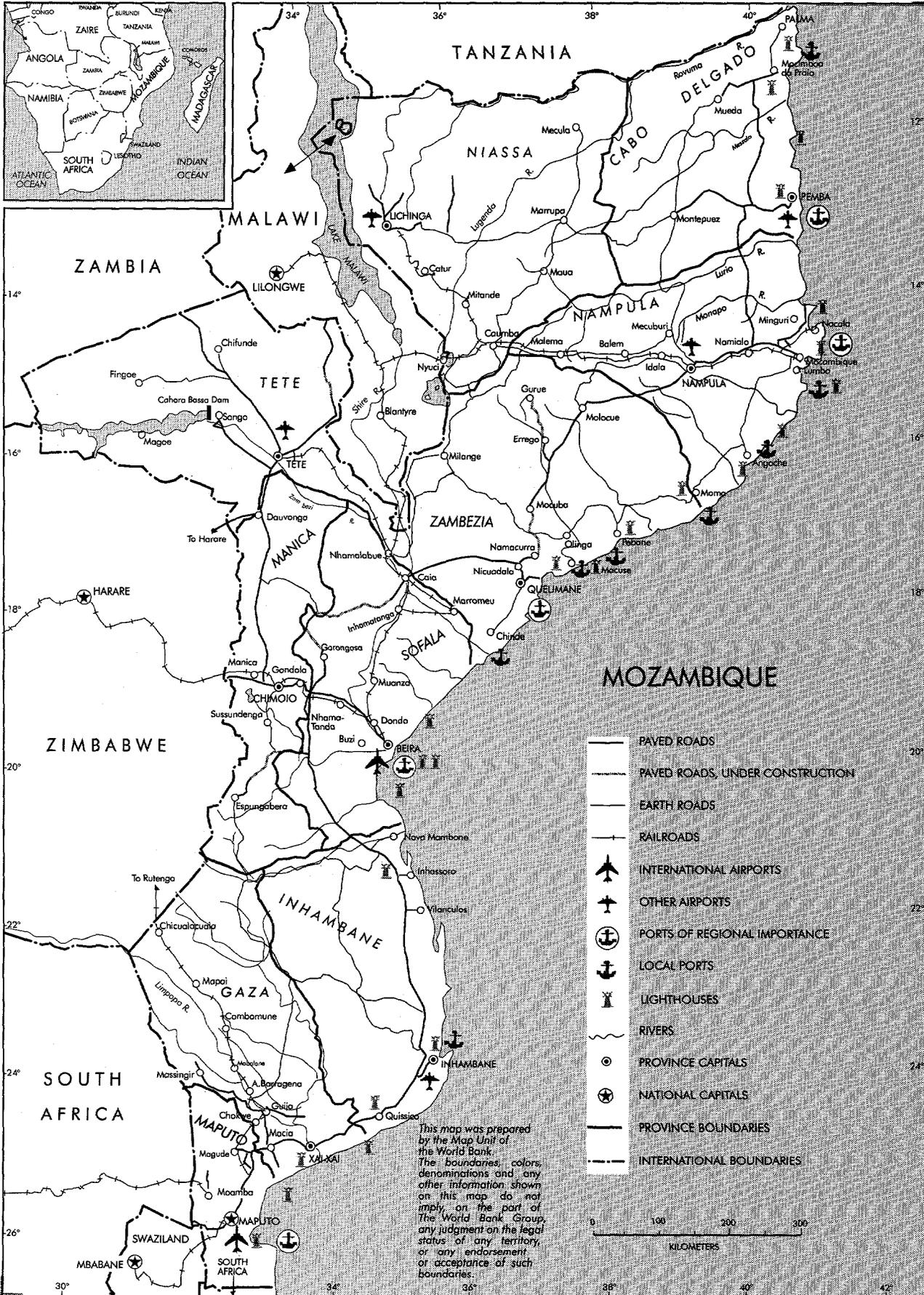
a. Use "excellent," "good," "fair," or "poor."

b. Indicate principal country-specific problems (e.g., for poverty reduction, "rural poverty;" for education, "female secondary completion;" for environment, "urban air pollution").

c. To indicate priority, use "low," "moderate," or "high."

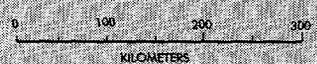
d. Give explanation, if priorities do not agree; for example, another MDB may have the lead on the issue, or there may be ongoing dialogue.

MAP SECTION



MOZAMBIQUE

- PAVED ROADS
- - - PAVED ROADS, UNDER CONSTRUCTION
- EARTH ROADS
- + RAILROADS
- ✈ INTERNATIONAL AIRPORTS
- ✈ OTHER AIRPORTS
- ⚓ PORTS OF REGIONAL IMPORTANCE
- ⚓ LOCAL PORTS
- ⚓ LIGHTHOUSES
- ~ RIVERS
- PROVINCE CAPITALS
- ★ NATIONAL CAPITALS
- PROVINCE BOUNDARIES
- - - INTERNATIONAL BOUNDARIES



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