

IDA AT WORK

Mozambique: From Post-Conflict Recovery to High Growth

Mozambique has emerged from decades of war to become one of Africa's best-performing economies. One of the poorest countries in the world at independence, the country has enjoyed a remarkable recovery, achieving an average annual rate of economic growth of 8 percent between 1996 and 2008, the highest growth rate among African oil-importers. This resulted in more than three million people being lifted out of poverty. Assuming that the poverty reduction trend between 1997 and 2003 continues Mozambique would be on-track to halve the population living in absolute poverty by 2015.

Challenge

Sustaining the country's impressive performance of the last decade will require further investments to expand the country's infrastructure networks, including in roads, railways, energy, water, and ports; improve the business environment, including reducing red-tape; making land and labor legislation more flexible; making the legal and judicial sector more effective; strengthening public financial management and the overall governance framework; and further decentralizing and bolstering the delivery of key services, especially in rural areas. Reducing the high HIV/AIDS infection rate—currently at 15 percent—is also critical.

Approach

IDA support to Mozambique has been diversified and continuous over the years. Since it began operating in Mozambique in 1984, IDA's assistance has evolved from helping to stabilize the economy in the 1980s, to post-war reconstruction in the early 1990s, to a comprehensive support strategy in the late 1990s, to the current strategy that involves close collaboration with the government, development partners, and civil society. IDA commitment to Mozambique's development effort is governed by the priorities set forth in its Country Partnership Strategy (covering 2007-11), which itself is guided by the country's own priorities as set forth in the government's poverty reduction action plan, known as PARPA from its Portuguese acronym. Current assistance combines investment, knowledge and policy dialogue, technical assistance, budget support, and debt relief.

Results

Ports and Railways. IDA support has been instrumental in revitalizing the railway and port systems in Mozambique. Drawing upon IDA funding and expertise since 1999, the Mozambique port and railways system staff productivity increased seven-fold by 2009; the port traffic in 2008 was 11.3 million tons compared to 8.5 million tons in 2002; the rail traffic in 2008 was 4.3 million tons compared to 3.4 million tons in 2000 when IDA initiated its support to the sector. The restructuring of the public company that runs the ports and railways system enabled the it to register a surplus - for the first time in decades - of more than US\$50 million per year for the last four years (more than \$80 million in 2009).

Mines. The recent IDA co-financed Mineral Resources Project helped the government develop new mining legislation, revamp and update geological surveys, and create a new cadastre system. This has laid the foundation for a strong minerals development sector. For instance, the new mining cadastre has contributed to the processing of over 1,000 licenses to date, and contributed to the overall soar in foreign direct investment flows to the mining sector in the country today.

Decentralization and Good Governance. IDA support to decentralization has helped bring the government closer to the people. It has also empowered citizens, and promoted voice and accountability. For instance, today at least 82 percent of the districts are implementing projects identified by the communities in the district plans. The district administrations have received a direct budget allocation for the first time ever and they have developed methodologies to improve collection of their local revenues. Given the political thrust towards greater decentralization, the policy and legal changes in the country, and the success of this initiative, the Government of Mozambique has decided to establish a single National Decentralized Planning and Finance Program to support implementation of the new policies, laws, and budget allocations for district development. In 2010, IDA has approved a total of US\$30 million as additional support to the sector, to build upon the achievements of that first phase.

Water. Institutional reforms in the water sector started in 1995 with the formulation of an IDA-supported national water policy. The urban water sector has since made considerable progress in the introduction of a delegated

management framework—whereby assets are owned by the government and operations are managed by independent operators including the private sector. In addition, IDA supported the creation of an asset holding company and a regulatory board that laid the groundwork for improving service levels and attracting investment. Mozambique’s delegated private sector management approach has attracted about US\$350 million of investments for urban water over the last six years. Between 2002 and 2008, actual expenditure in the water sector increased 255 percent. The number of piped water connections increased by 40 percent between 2003 and 2008 in Maputo and the number of rural water access points increased by 45 percent over the same period.

Education. IDA-supported reforms in the education sector have resulted in a new curriculum for primary education, and are having a direct impact on the quality of education. Other IDA-backed achievements include an expanded national program of direct support for schools introduced in 2004, the first providing direct financing to primary schools aiming at quality improvement and decentralization. Since 2006, this program received a boost with a financial contribution from other partners and was expanded in 2008 to secondary schools.

IDA Contribution

Since the end of the civil war, IDA has committed almost US\$4 billion in support of over 60 projects and completed more than 50 formal in-depth analytical reports on Mozambique. A first IDA economic recovery credit in 1992 supported a broad post-war strategy, includ-

ing redeploying government expenditures towards key social sectors and small-holder agriculture, liberalization and privatization in industry and agriculture, and financial sector reform. Mozambique’s post-war success was built on a number of reforms that worked because they were based on sound knowledge and analysis, because they benefited from other countries’ experiences. IDA’s technical expertise, worldwide experience, and ability to integrate knowledge from across the whole spectrum of development work were essential contributors. For example: the successful liberalization of the telecommunications sector emerged from a discussion of Madagascar’s experience with liberalization of its mobile telephony. Other examples are the restructuring and recovering of the ports and rail system; and the revitalization of the mining sector. as well as investments in water and sanitation.

As of August 2010, there are 22 ongoing projects in the portfolio including 15 IDA investment projects, one guarantee from the International Bank for Reconstruction and Development, two IDA-administered Global Environment Facility (GEF)-funded projects, two IDA-funded regional projects and one IDA-funded general budget support operation. In addition, there are two IDA-administered, donor-funded trust funds for the education and water sectors. Together, the above operations represent a total net commitment of US\$923.8 million and include the following sectors: human development (education and health); private sector development; water and sanitation; transport infrastructure (roads, rail, ports, and bridges); agriculture and rural development; decentralization and urban development; and budget support.

Partners

As part of IDA's commitment to alignment and harmonization, it works closely with other development partners to improve the quality and effectiveness of development assistance to Mozambique. Fundamental to IDA's assistance strategy for Mozambique is the provision of general budget support to implement key policy actions of the country's poverty reduction plan. The budget support operation is closely aligned with the general budget support activities of 19 other development partners, namely the African Development Bank, Austria, Belgium, Canada, Denmark, European Union, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, and the United Kingdom.

In addition, IDA has approved recently the National Decentralization Planning and Finance Program, which seeks to further advance the decentralization agenda in Mozambique by funneling US\$30.4 million worth of IDA financing to a Common Fund agreed upon between the Government of Mozambique, the World Bank, the United Nations in Mozambique, Germany, Switzerland, Ireland, and the Netherlands. Other past and present collaborations include in the areas of education, health, and roads, but also fiduciary and monitoring and evaluation.

IDA has a long-established partnership with UN agencies, but also recently with the African Development Bank and International Monetary Fund in establishing a Development Information Center to further expand access to information produced by those institutions. The Center is meant to be a one stop shop for access to development related information

and is housed at the premises of the National Public Library in Maputo.

Moving Forward

IDA will continue to broaden its support to Mozambique in alignment with the country's own priorities and in close collaboration with other development partners to help the Government of Mozambique address some of its major challenges ahead, including : foster private sector-led growth through improving the business environment as a mean to create jobs; support the government in boosting agricultural productivity; continue support to the road sector as Mozambique still has one of the least developed road networks in the southern African region; support the expansion of energy access as the country still lags in terms of access to energy. Recent data from the UN Development Programme estimated that the electrification rate was at a mere 6 percent in 2007, this despite greater flows of investments into the sector in the past five years.

Beneficiaries

About four million Mozambicans are now connected through cell phones thanks to the liberalization of the sector conducted under IDA's technical assistance.

IDA support to the rail, roads and ports systems has helped rehabilitate hundreds of kilometers of rail lines and roads destroyed by the war and thus directly benefiting millions and enabling companies to transport goods to markets, creating wealth and jobs, and lifting millions out of the poverty trap, as well as allowing young people to attend schools and seek medical assistance.

IDA budget support operations, policy dialogues and technical assistance to the Ministry of Finance and other key ministries helped the country put in place a sound macroeconomic management, which became key to the overall economic performance registered.

The continuous technical assistance and advisory work undertaken in the business environment have resulted in greater emphasis in reforms aimed at reducing red tape, and improving the overall business environment, essential in promoting private investment and job creation.

IDA support, together with that from other donors, has been instrumental in expanding water access to millions of Mozambicans countrywide. Likewise, IDA consistent and robust financing to the education and health sectors have made it possible for millions to access education and health.

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