Mozambique: Country Assistance Strategy

Two years ago, when the previous CAS for Mozambique was discussed by the Board, the enormity of Mozambique's development challenges was daunting, and the country's capacity to confront them seriously overstretched, as it embarked on the arduous task of rebuilding after a protracted and devastating war. Today, Mozambique's development challenges are no less enormous. However, the prospects are much brighter: political stability and perseverance with reform have contributed to a good macro-economic performance record which, if it persists, could enable Mozambique to emerge as a major economic force in the southern African region.

The Bank can claim some credit for Mozambique's strong economic performance, and the largely successful relationship that has been maintained between the Bank and Mozambique has been very instrumental in getting the country to this point in its development. My Mozambican authorities have asked me to convey their gratitude to the Bank for the valuable assistance it has offered through its lending and non-lending services in support of Mozambique's reform program.

Much has been said in the weeks preceding this meeting about the process of consultation on this CAS between the Bank, its development partners, the Government, NGOs and the Mozambique civil society. While agreeing that the CAS may have benefited from a much broader and more participatory consultative process, we recognize, however, that the consultation process for this CAS was a significant improvement over the 1995 CAS. We also recognize that consultation is an on-going process, and that the Bank has been in regular dialogue with the Government, donors, NGOs, the private sector, and civil society, whose concerns are largely reflected in the CAS. We would like to suggest that both the CAR and the CAS be translated into Portuguese and widely distributed as soon as possible—preferably in the early part of next year. This dissemination should be followed immediately by discussion of both documents with the Government, donors, NGOs, the private sector and civil society, as part of the ongoing consultation exercise between the Bank and its partners. This should be done within the context of a broader outreach program, involving EDI and External Affairs, with a view to increasing understanding and strengthening partnerships.

Mozambique's recent economic performance has continued to be commendable. Recently announced macro-economic indicators show that non-energy GDP growth for this calendar year is estimated to be about 7 percent, compared with 6 percent in 1996 and 5 percent in 1995. Inflation in 1997 is down to less than 7 percent, from 17 percent in 1996 and a high of 70 percent in 1994. In the area of fiscal management, the Government's revenue mobilization efforts have paid off, as Government...
revenues have increased by over 20 percent, with a full 13 percent of this increase accounted for by improved efficiency in tax collection. A great deal of progress has been made in the financial sector since the last CAS, with the banking sector now completely privatized. Furthermore, the overall privatization program has proceeded according to plan, with a large proportion of all public enterprises having been privatized. Indeed, today Mozambique’s privatization exercise is said to be one of the most successful in Africa.

One fundamental factor that partly explains Mozambique’s success with reform is the decision by the Bank to leave the Mozambican authorities to determine the appropriate pace of reform, in view of the country’s severe capacity limitations. While the pace may have been frustratingly slow for the Bank, it, no doubt, explains the high degree of ownership that has characterized Mozambique’s reform process, and has made relatively smooth implementation possible. While differences remain between the Bank and the Mozambican Government on the timing or priority of specific actions, and the Bank favors a more rapid and deeper reform, the Bank must continue to take account of the serious capacity constraints that may make faster implementation unsustainable. The process of achieving consensus through broad debate is fundamental to ownership, and thus implementation, and should be encouraged.

The proposed country assistance strategy is very much in keeping with the Government’s development priorities, which include a central focus on creating the conditions for broad-based and equitable growth and a reduced dependence on external aid, with a prominent role for the private sector and increased attention to capacity building and human resource development. The Government is confident that the current pace of reform will be maintained, and thus the base-case scenario easily achieved. This would call for a significant assistance program for Mozambique, which is timely in view of Mozambique’s successful emergence from the post-war transition period, and the substantial improvement in the performance of its portfolio. Together with possible enclave guarantees and anticipated debt relief for Mozambique, the country is poised to maintain—or even expand—growth appreciably in the coming years.

The IMF and MIGA have also been quite active in Mozambique, and their operations in Mozambique are expected to expand further as the country is increasingly seen by foreign investors as a country with immense opportunities and significant potential for private sector investment. In addition, IFC’s advisory services and small enterprise facilities are expected to continue to address the needs of the business community in Mozambique.

My authorities have asked me to highlight a number of concerns and comments that they have which they would like to see stressed in the implementation of this CAS.

1. As mentioned earlier, the Government recognizes that the private sector must play a key role in spurring Mozambique’s development. However, the domestic private sector remains very small, and indigenous Mozambicans generally do not perceive themselves as participating in the private sector-led growth that is contributing to their country’s growth. A concerted effort must be made by the entire Bank Group to help develop the domestic private sector. While attracting private foreign investment must remain a priority, this objective must go hand-in-hand with a serious effort to develop a credible private sector in Mozambique. A developed domestic private sector is an essential component of an enabling environment, which would help make the reform effort socially and politically acceptable.

2. The absence of a significant private sector is just one aspect of the broader problem of capacity which is central to Mozambique’s development. The country’s severe capacity limitations, an unfortunate legacy of its colonial past, threatens to stall Mozambique’s progress with reform if not addressed promptly. Capacity building must be addressed in a comprehensive manner, as it affects all aspects of the country’s development—from governance to civil service reform, and from education to
3. This brings me to the issue of education. The CAS rightly recognizes education to be one of the most important priorities for Mozambique's development. The appropriate emphasis in a forthcoming sector investment program is being put on primary and secondary education, given their importance in creating a more enlightened populace. However, this concentration must not be at the expense of tertiary education, which the Government has sought to expand, in view of the critical nature of this level of education. The establishment of technical colleges is important for the creation of skilled engineers and technologists who can make an immediate contribution to the country's development. At the same time, an effort must be made to provide management training for current and future private sector individuals, including instruction in accounting, marketing and management, to help develop capacity in the private sector. Most importantly, Mozambique lacks a critical mass of university graduates to staff key positions in the public and private sectors. This may well be an area where the Bank's role should merely complement the efforts of some of its development partners with a comparative advantage in the provision of tertiary education.

4. In spite of Mozambique's remarkable achievements, Mozambique remains one of the very poorest countries in the world. Many of its basic indicators are lower than most of its Sub-Saharan African counterparts, and about two-thirds of all rural Mozambicans live in absolute poverty. Of particular concern is what the recent OED Country Assistance Review for Mozambique describes as "geographic dualism," i.e., the concentration of industrial development, central government power, tertiary education and tourism in the south of the country. Poor transportation compounds this problem and impedes the country's economic integration. This situation, the CAR observes, could have potentially destabilizing consequences, and must be taken into account in the Bank's assistance to Mozambique in the next few years. Some kind of income distribution scheme needs to be established to bring about a more equitable distribution of wealth in the country. Furthermore, specific attention must be given to areas in the country that have traditionally been neglected. All the Bank's programs and policies in Mozambique in the future must give special attention to this issue.

5. In seeking to redress this regional imbalance, special attention needs to be given to the area of rural marketing. Since the abolition of marketing boards, smallholder farmers have lacked a reliable system of distribution and marketing which will ensure that their agriculture products are purchased, while also serving as a source for seeds, fertilizer and farming implements. The Bank should look into the possibility of finding a solution to this serious impediment to agricultural productivity.

6. The proliferation of donors in Mozambique, however well-meaning, tends to overwhelm the country's limited capacity. This was a recurrent theme in the recently discussed CAR for Mozambique. More of an effort must be made to better streamline and coordinate aid, which must be matched with the country's own defined needs and its implementation capacity. This will entail strengthening partnerships, a declared objective of the CAS. The Bank should determine, and take the lead in, the areas in which it has a comparative advantage, and be prepared to play a more complementary role in areas where the comparative advantage lies with other donors, NGOs, or the private sector.

7. Last September, the Boards of both the Bank and the Fund discussed Mozambique's Preliminary Document on the HIPC Initiative and agreed on Mozambique's eligibility for assistance under the Initiative. It was also agreed that the decision point should be reached as soon as possible, with a completion point no later than mid-1999. Indeed, the understanding at that time was that the decision point would be reached as early as this month. However, to date there is as yet no agreement on
burden-sharing by creditors, and no date has been set for the decision point. Mozambique’s debt problem has been a severe constraint to the country’s development, and my Mozambican authorities have asked me to emphasize to the Board the urgency of the matter, and to urge the Bank and other creditors to seek an early resolution to this important issue.

8. Finally, the Mozambique Resident Mission has played a useful role in maintaining the Bank’s relationship with the Government and the Bank’s development partners. Outgoing Resident Representative Roberto Chavez has made an important contribution to this effort, for which the Government is grateful. We trust that his replacement, Jim Coates, will continue in this tradition. We also expect to see greater authority and responsibility devolve to the field office, in view of an expanded assistance program in Mozambique in the coming years. As noted in the CAR, “...the case for shifting more responsibility to the field appears compelling given the increased demands for aid coordination and the rising need to put Mozambique authorities in the “driver’s seat” while monitoring a strong supportive presence.”

In conclusion, I would like to again thank Bank staff for the hard work put into the preparation of this CAS. The Government of Mozambique recognizes the huge challenges that confront it, and will maintain the pace of reform in its endeavor to bring about sustainable, broad-based and equitable development.