Statement by Matthias Meyer  
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Mozambique - Country Assistance Strategy

We would like to thank staff for this good document. It provides a thorough analysis of the main challenges and risks facing Mozambique. We agree with the proposed strategy to focus on increasing economic opportunities through private sector led growth, improving governance and empowerment, and increasing human capabilities. We concur with the lending scenarios and triggers that take into account the country’s absorptive capacity, performance, and the availability of grant funds.

We appreciate the broad consultations carried out in all the regions of the country in preparation for this CAS, which was a first, and that the Bank was able to do them despite the elections. However, we are somewhat surprised that there seem to be few differences of views among the many social groups. Annex D states that there was substantial commonality regarding top issues and priorities. How did Bank staff deal with conflicting messages, such as calls for protectionism, stronger state interventions, etc.?

As mentioned, we agree with the strategy and the priorities of the CAS. Yet, we don’t get a clear sense of the comparative advantage of the Bank in Mozambique and the choices that have to be made. The Bank seems to be involved in almost all sectors. We can imagine that every Ministry likes to have the Bank as a partner, and we understand that the donors also like to see the Bank participate everywhere, at least through analytical work. However, agreeing to all of those demands will come at a cost. Would it not be possible to push donor coordination to a higher level? Donor coordination in Mozambique is intense and very time-consuming for both the donors and the government. Yet, most donors continue with disperse programs, few of the operational procedures have been unified, and pooling arrangements are still the exception. SWAP’s – an approach which we fully support – have unified the sector strategies and harmonized some of the planning processes, but they are still facing significant implementation problems. For example, we are being told that in PROAGRI, the agriculture sector program, not a single dollar has been spent so far in a concrete project. Could the Bank together with the
government play a more active role in increasing the quality of donor coordination, which would then allow the Bank to become more selective and strategic in its activities? Will this be an issue for debate and decision making at the upcoming CG?

As part of defining more clearly the role and comparative advantage of the Bank, indicators to monitor the success and impact of the Bank’s assistance should be developed. The indicators mentioned in Annex B9 are not fully convincing to capture the main outcomes systematically.

Improved fiscal management is a key challenge. Considerable progress has been made over the last years: the national budget has become more inclusive, public accounting has improved, sectoral and functional allocation of expenditures are more in line with government priorities, and sectoral strategies are being prepared. On the revenues side, the outsourcing of customs management is starting to pay off and the introduction of VAT has given positive results.

However, the first review under the PRGF showed that transparency and accountability still need to be improved, which is even more important in light of the additional resources made available through HIPC debt relief. Budget management is a crucial link between financial resources and poverty reduction. We welcome the proposed technical assistance to improve fiscal management and would like to stress the importance of integrating this with the capacity-building program prepared by the Ministry of Planning and Finance (MPF) for joint donor financing. There are many institutional weaknesses in the MPF at the central, provincial, and local level. Since the Bank has much expertise in public finance, it should be important to participate in the partnership to strengthen MPF’s capacity. A new public expenditure review will be very useful, but we would like to stress the importance to have them conducted by the Mozambican authorities with the support from the Bank.

A technical question: Annex B9 mentions that one of the performance indicators will be the fiscal deficit before grants within the annual limits established with the IMF. Does that imply that any additional grant funding can either not be used by the government or has to become off-budget? Would it not be more meaningful to agree on fiscal deficit targets after grants?

We are looking forward to the full PRSP scheduled for next year and welcome the Bank’s support to this process. The poverty analysis in the CAS could be strengthened by looking much more at dynamic issues of poverty, including the influence of growth and measures to be taken to reach more equity. The CAS has taken a somewhat static view without analyzing changes in inequality. Taking into account the analysis of growth and distribution in other regions (such as Latin America), we are concerned about the situation in Mozambique as well.

We agree that agriculture and rural development will play a key role for broad-based growth and effective reduction of poverty. The development and modernisation of agriculture, revival of a commercial network, and the development of infrastructures are crucial. Rural communities have been forced to look inward at their own resources and skills for their well-being. While indigenous technical knowledge has always been important in Mozambican communities, the significance of its role in future development strategies has not received recognition. Local control of resources and initiatives is critical, and focusing on enhanced participation by local people is extremely important.
Reforms to promote private sector development are needed and we welcome the Bank’s emphasis. It has a strong comparative advantage through the wide range of instruments provided by IDA, MIGA and IFC. However, private sector-led growth and an export-led economic strategy are likely to enhance structural rigidities, such as a weak linkage between the peasant economy and the modern sector which responds primarily to signals from the global marketplace. It is not yet clear how to get from the present production and export patterns to a more viable growth path under the current conditions of international competition. The weak linkages are likely to imply that significant parts of the population will not benefit from growth.

Support to micro, small and medium enterprises is fundamental. We hope to see a convincing SME strategy as part of the full PRSP scheduled for next year.

Since the rule of law is an absolute prerequisite for continued private sector growth, the Bank’s promotion of legal reform is to be commended. But what emphasis is put on judiciary reform? Considering slow progress until now, it seems to be advisable to link monitoring and triggers for the lending program not only to the production of strategies and papers but to concrete output indicators.

An anti-corruption action plan should receive high priority. There has been much verbal support, but it is difficult to perceive any practical effects. Mozambique is in a position where it could address the problem of corruption before it becomes endemic. We believe that the Bank should increase its dialogue with the government on this issue and integrate these concerns in its program.

Given the importance of innovation and competitiveness to ensure sustainable development and equity, is the overall effort in higher-level and business-based training sufficient? Is the Bank’s and IFC’s support required and should it be reinforced? How could the Bank give support to the development of technical and vocational training institutions and schemes at a decentralized level, e.g. in provincial capitals in the Central and Northern regions?

Gender: Mozambique was one of three pilots cases selected by the SPA for implementing more gender-sensitive adjustment programs. But the CAS pays little explicit attention to gender issues.

A final remark: the Bank is Mozambique’s most important single development partner. Its policies and actions affect in major ways the country’s development reality. In this sense we would like to ask the Bank to continue to:

- Decentralise further its operations with the necessary staffing of the local country office thereby reducing the number of large scale missions which paralyse entire national directorates for weeks.

- Simplify its procedures to allow the Bank to join pooling of funds with other donors. This is essential for the SWAP’s.
· Be more flexible in the application of the procurement rules in order to give the emerging national private sector a fair chance.

To conclude: the Government of Mozambique has shown its capacity to deliver astounding results despite the capacity weaknesses. We wish the authorities and the Bank staff much success in their joint endeavour.