

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, Mozambique's economy has grown at over 8 percent annually during the past 10 years, the highest growth rate among African oil-importers. Between 1997 and 2003, three million people were lifted out of absolute poverty, notably in rural areas. Child mortality has dropped and school enrollments have risen.

Mozambique is one of the largest recipients of resources both from the International Development Association (IDA), the World Bank's fund for the world's poorest countries, and from other donors active in Africa. Along with financial support, IDA's technical expertise, global experience and ability to draw on the full spectrum of development work have all contributed to Mozambique's successes.

Country Indicators	1990/92	2005/06
GDP per capita (US\$)	150	310
Average inflation (%)	39	9.7
External debt (% of GDP)	286	81
Poverty incidence (%)	69 (1997)	54 (2003)
Net primary school enrollment rate (%)	43	71
Under-five child mortality (per 1,000)	235	152
Population (millions)	16.5	20.1

Sources: *Instituto Nacional de Estatísticas* (INE), Government of Mozambique, Banco de Moçambique and IMF; National Household Surveys; Ministry of Education; Demographic and Health Surveys.

COUNTRY ACHIEVEMENTS

Since it emerged from three decades of conflict, Mozambique has achieved economic and social progress.

Thirteen years of sporadic anti-colonial warfare were followed by independence in 1975 and a 16-year civil war, which killed an estimated one million Mozambicans, and forced millions more to flee their homes. Since peace was restored with the Rome Accords in 1992, a new constitution has guaranteed a multi-party political system, a market-based economy, and free elections.

Growth and poverty reduction.

Growth has averaged over 8 percent a year during the past 10 years, driven by good performance in the transport, communication and construction sectors, and recovery in agriculture. Consistent implementation of fundamental reforms has led to large increases in foreign direct investment in aluminum, natural gas and titanium.

Poverty fell by about 15 percent between 1997 and 2003, bringing almost 3 million people out of extreme poverty in six years. Poverty decreased more in rural areas (from 71 to 55 percent) than in urban areas (62 to 52 percent)—Mozambique is only the second country in the world after Vietnam to have achieved this.

Under debt relief initiatives, the net present value of public external debt has been halved, from 25 percent of GDP in 2003 and in 2004 to 12 percent of GDP in 2006.

These successes have been grounded in overall macroeconomic stability, policy reform, gov-

ernment expenditures that benefit the poor, and strong donor support, producing robust growth across most sectors of the economy.

Key achievements have included:

- **Trade liberalization:** exports have grown at 20 percent a year over the last 10 years, making Mozambique one of the few African countries whose share of world exports has risen.
- **A rebound in agriculture:** output growth has averaged 5.6 percent since 1992, with half due to area expansion, and the remainder due to labor force growth and yield improvements. The percentage of rural farm households who have adopted techniques recommended by agricultural extension agents increased from 2.4 percent in 2000 to 13 percent in 2004.
- **A liberal investment climate** for “mega-projects”, including investments in aluminum smelting, gas and minerals that are adding 1.5 percent a year to GDP growth.
- **Effective disaster management:** Mozambique responded well to major floods and a cyclone in 2007, evidence that it has increased its capacity to manage natural disasters.
- **Financial sector reform,** including the creation of a separate Reserve Bank and the introduction of competition in the commercial banking sector. Recent achievements include an agreed strategy to bring all Mozambican banks in compliance with international reporting standards by 2007.
- **Improvements in education:** since 1991 net primary school enrollment has increased

65 percentage points, and the completion rate for extended primary has doubled to 40 percent in 2003.

- **Rising health standards:** both infant mortality and under five mortality have fallen by 35 percentage points since 1990.
- **Reductions in transport costs:** classified roads in good or fair condition have risen seven-fold to 70 percent, and impassable roads have fallen ten-fold to only 5 percent. Institutional reforms have improved the sustainability of investments.
- **Improvements in water availability:** access to safe water has more than doubled to 27 percent in rural areas between 1996/7 and 2002/3. Infrastructure investments and institutional reforms in service management have improved quality, reliability and financial sustainability of water supply services in urban areas, and the Millennium Development Goal of 70 percent sustainable coverage in urban areas will likely be met.

These successes have rested on three pillars which IDA has helped consolidate: strong government ownership of the reform program; coherent and well-grounded reforms; and large volumes of increasingly well-coordinated donor assistance.

IDA CONTRIBUTIONS

Since the end of the civil war, IDA has committed more than US\$2.3 billion in support of 55 projects and completed more than 30 formal in-depth analytical reports on Mozambique. Mozambique became a major element of the Africa portfolios of other World Bank Group institutions—the International Finance Corporation (IFC) and the Multilateral Investment

Guarantee Agency—including financing and guarantees for the Mozal aluminum smelter.

IDA's contribution to Mozambique's recovery began even before a formal peace treaty was signed in October 1992. IDA supported the government in working with the International Monetary Fund (IMF) and a wide range of donors to create an innovative financing package that matched the needs of an economy able to absorb quickly unusually large flows of aid. This financing allowed Mozambique to launch structural reforms and move gradually away from receiving humanitarian aid to development assistance.

A first IDA economic recovery credit in 1992 supported a broad post-war strategy, including redeploing government expenditures towards key social sectors and small-holder agriculture, liberalization and privatization in industry and agriculture, and financial sector reform.

Supporting a government-led program.

The government has had a clear set of policy priorities which have reflected the direction in which it wanted to take Mozambique. To reinforce its ownership of the development agenda and reduce transactions costs, the government has stressed the benefits of improved harmonization, and has worked to bring donor assistance into the budget and in line with the government's budget cycle.

A group of 18 donors¹ providing direct budget support to Mozambique base their programs on a single performance assessment framework

1. In addition to IDA, the following are members of the "Group of 18": the African Development Bank, Belgium, Canada, Denmark, the European Commission, Finland, France, Germany, the Netherlands, Ireland, Italy, Norway, Portugal, Spain, Sweden, Switzerland and the United Kingdom.

built entirely on the government's poverty reduction strategy (known by its Portuguese acronym PARPA). A focal donor is appointed for each sector to ensure a coherent and unified dialogue with the government on sector priorities. IDA's wide-ranging analytical work was instrumental in building the structure of this framework by helping to prioritize actions and indicators across sectors.

IDA has increasingly moved from project assistance to sector- and program-based approaches. Since 2004, it has worked with other donors to form a coherent group supporting a single government program, rather than a fragmented and potentially incoherent set of separate donor projects.

Providing technical expertise and worldwide experience.

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, and because they formed a coherent whole. IDA's technical expertise, world-wide 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 mobile telephony. IDA's knowledge of other countries' experience with licensing private mobile operators sparked the government's interest. In little time, IDA was able to produce a synthesis of good practice models in Africa and beyond, and highlight their dramatic impact on con-

nectivity. This helped spur the government to quickly liberalize the mobile market, and cell-phone users grew from 51,000 in 2001 to 1.3 million in 2005.

The Cell-phone Revolution

The cost of mobile telecommunications dropped dramatically after competition was introduced and a second operator entered the market in 2003. Total teledensity went from 8 subscribers per 1,000 inhabitants in 2004 to 55 per 1,000 the following year.

IDA helped draw a new telecommunications law in 2004, paving the way for full liberalization of the sector by December 2007.

IDA's analytical strengths have allowed it to play a key role in shaping Mozambique's poverty reduction strategy. IDA's assessment of poverty in the country, along with agriculture, health and education surveys, also steered and reassured policy-makers by demonstrating the success of earlier poverty reduction efforts.

Other country analyses (i.e., a Country Economic Memorandum as well as studies on rural development and tourism) provided recommendations for the optimal use of Mozambique's natural resources—land, forestry, fisheries, mining and water—and for integrating their management into the country's overall growth strategy.

Reviews and assessments of public expenditure (especially in the social sectors), financial accountability, procurement, the financial sector, the investment climate, and the legal and judicial sectors all formed the basis for well-grounded reforms.

Supplying and leveraging large volumes of aid and private finance.

Large volumes of both aid and private sector flows have helped finance Mozambique's ambitious and successful investment programs. IDA has supported these programs by integrating analytical work, institution-building and multi-donor assistance.

The World Bank Group has played a key role in leveraging private sector inflows by supporting the creation of an investor-friendly business climate and providing guarantees to a number of very large investments.

IDA has also helped to boost private sector investment through advisory services, training and projects linked to mega-projects. Through poverty reduction credits, it has supported efforts to reform the commercial code, tourism law, investment regulation, and business registration.

IDA's institutional, policy and investment support has helped Mozambique improve its roads, water and education.

Roads. IDA was the primary supporter of the roads network over the last fifteen years, both

through financing (US\$400 million for two programs) and thorough advisory services.

Based on analytical work conducted while the war was still underway, IDA supported the government in developing and obtaining financing for a high priority, long term roads sector program, which integrated rehabilitation and maintenance, civil works and institution-building. Initial rehabilitation priorities were based both on agricultural priorities (using knowledge gained from IDA's involvement in that sector), and on the need to provide access to returning refugees.

Through its close involvement in the government's overall emergency recovery program, IDA helped to mobilize significant financing from donors and assisted the government in managing the trade-offs that this implied for other sectors. This was one of the first examples of a sector-wide approach.

The road building program was complemented by an institutional capacity-building program including the creation of an independent road fund to pay for government's share of maintenance, by pooling fuel user charges. IDA also supported the creation of an innovative scholarship program to retain staff after training and for the development of private sector trucking and contracting enterprises.

World Bank Group Support of Mega-Projects

- MIGA provided guarantees for investments in the Mozal aluminum smelter and SASOL, worth US\$2 billion and US\$1.2 billion respectively. In addition, the IFC invested US\$145 million in the Mozal aluminum plant, and IDA established a project to help small and medium enterprises benefit from contracts with Mozal.
- IDA worked with the IMF and MIGA to advise government on how to optimize the terms of a US\$950 million loan for the transfer of the Cahora Bassa hydropower plant from majority Portuguese to majority Mozambican ownership—a project which could open new opportunities for hydro-power in Mozambique's Zambezi Basin.
- IDA is also working to ensure maximum development benefits from future mega-projects, such as the planned US\$1.5 billion foreign investment in the Moatize coal project.

Road to Recovery

- Two IDA-financed roads and coastal shipping projects helped rehabilitate over 6,600 km of rural roads between 1992 and 2000.
- The share of national network roads in good and fair condition increased to 56 percent, from 10 percent before the first Roads and Coast Shipping project started in 1992.
- Routine maintenance execution improved steadily and substantially.
- Civil works on primary and secondary roads led to reductions in travel times of up to 50 percent.
- Lower unit transport costs led to a significant increase in traffic volume and an increase in the basket of goods and services available in rural areas.

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 policy of delegated management - whereby assets are owned by the government and operations are managed by the private sector.

IDA supported the creation in 1998 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. **About 70 percent of the urban population of Mozambique have benefited from improved production and a more reliable water supply.** The level of service in cities served by the holding company has

improved steadily over the past three years, with hours of supply increasing from 9 to 24 hours daily in the cities of Beira, Quelimane, Nampula, and Pemba.

Education. IDA-supported reforms in the education sector have resulted in a new curriculum for primary education, launched nationwide in 2004, which is expected to have a direct impact on the quality of education. Other IDA-backed achievements include: an expanded national program of direct support for schools, and important initiatives on school health and HIV/AIDS prevention; a new strategy and training modality for primary school teachers to accelerate the supply of qualified teachers and improve deployment practices; elimination of primary school fees; and an increase in the budget for primary and post-secondary education.

As a result **the number of schools rose from 2,800 in 1992 to 8,000 in 2003**, representing the greatest ever expansion of access to education, with 3 million primary school students being taught by 48,000 teachers by 2004.

CHALLENGES AHEAD

The government faces three major challenges: to ensure more jobs are created; to sustain the growth of rural incomes; and to achieve greater success in reducing the incidence of HIV/AIDS.

Access to a higher level of external financing in the next few years, if coupled with continued vigorous implementation of reforms, could accelerate real annual growth, help the country accelerate progress toward the Millennium Development Goals and meet some of these challenges.

Creating jobs will require a much greater focus on improving the business environment. Mozambique has been in the bottom decile of most business efficiency surveys, with corruption, red tape, inflexible labor markets, and infrastructure bottlenecks seen as major problems for both foreign and local business. While the government has been successful in attracting “mega-projects”, in part through generous tax incentives, employment-generating investments in small and medium enterprises lag.

Recently, considerable progress has been made in reducing licensing times and other administrative bottlenecks, but the underlying business climate is still unfavorable.

Sustaining growth in rural incomes will require greater attention to boosting agricultural productivity. Growth in agriculture has started to plateau after the post-conflict “bounce back”, and there is a need to focus more on productivity enhancing methods. These will need to include: improved research that is relevant to farmers; broader dissemination of drought-resistant crop varieties; the encouragement of outgrower arrangements; the exploration of new models for access to financial markets by smallholders; facilitating investment in medium- and large-scale farms; and upgrading rural infrastructure, including irrigation and roads.

Investing in irrigation would be worthwhile. About one-tenth of the country’s 36 million hectares of cultivable land is suitable for irrigation, but less than 1 percent of this is irrigated, the lowest in the region. The benefits of small-scale irrigation are high: an investment of US\$20 million per year over 15 years would increase total agricultural value added by about US\$250 million in 2020. Lack

of water storage is one key constraint to expanding irrigation. The useful capacity of the country’s dams represents only 5 percent of the mean annual river runoff, excluding the Zambezi, and there would be major benefits from increased water storage.

Improving health. Mozambique faces significant health challenges, including rates of infant and child mortality that are still high by world standards. HIV prevalence—at about twice the Sub-Saharan Africa average—is a major concern.

HIV/AIDS is a critical problem. With a current prevalence rate of 16 percent, life expectancy at birth is expected to drop from 43 to 36 years by 2010, rather than increasing to 50 years as it would have in the absence of HIV/AIDS. Despite increased political commitment and funding, the national response is hampered by the lack of human resources. (In 2006, according to UNAIDS, there were 1.6 million adults infected with HIV but only 4,468 doctors and nurses in the country.)

Monitoring also needs to be improved, and efforts are under way to develop a comprehensive financial tracking system for HIV/AIDS allocations and expenditures.

Malaria and tuberculosis remain significant problems as well: malaria is the primary cause of death among children, with some 25,000 to 50,000 children dying each year.

Significant reductions in mortality and morbidity would accrue from increased expenditure on outreach mechanisms for preventive services, scaling up community-based care, improving facility-based care and an outreach strategy for primary curative care.

Scaling up of investments would be feasible and desirable in a number of other areas:

Energy. Lack of reliable electricity (or in most cases lack of any electricity) is a severe development constraint in Mozambique. Some 64 percent of manufacturing firms rate electricity as their most serious infrastructure problem, and at current rates of electrification the poorest 80 percent of households will not obtain electricity for decades. Additional IDA funding would allow faster expansion of the rural electrification network to the rural population, and an increase in reliability in rural areas as a whole.

Roads and bridges. The rehabilitation of the road network was an important factor in the strong economic growth over the last 10 years. Despite this, Mozambique still has one of the least developed road networks in the southern African region, and continued rapid rehabilitation and new construction will be needed if growth is to be sustained. Additional resources would allow significant extension of the rural and feeder road network, especially in areas with high growth potential, and would allow improvements in the condition of rural secondary and tertiary roads.

Drawing lessons from IDA's experience in Mozambique.

In 2006, the World Bank's Independent Evaluation Group (IEG) rated IDA loans in Mozambique as 93 percent satisfactory. Seventy percent of projects were judged to have a substantial development impact, and 90 percent were considered likely to be sustained.

There has been no recent overall IEG assessment of IDA's assistance to Mozambique.

Nevertheless, several lessons can be derived from IEG's project evaluations, as well as anecdotally.

Strong **government leadership** through the PARPA has substantially changed the dynamic of the government and donors' respective roles, with IDA aligning its program with PARPA goals, and measuring success much more in terms of "outputs" (results) than in terms of "inputs" (credits).

The experience of trade and financial sector reforms highlighted the importance of being sensitive to the **political economy** of policy reform. IDA's recommendations on liberalization of the export of raw cashews were very controversial because of their impact on the domestic processing industry. Part of the problem was that the liberalization was, unlike other elements of Mozambique's reform program, seen as imposed by the Bank, which contributed to their lack of domestic credibility. This was compounded by IDA's insufficient analysis of the complex global value chains in the cashew industry, and of the likely supply response of domestic growers.

Flexibility in adapting to Mozambique's evolving development phases and specific challenges was essential. The focus of interventions shifted from immediate emergency post-conflict reconstruction, to reforms supporting the institutional and financial sustainability of infrastructure and social investments, to second generation reforms, including the business environment and governance.

For example, before 1992 Mozambique had one public bank, *Banco de Moçambique*, which functioned as both the Reserve Bank and as the dominant commercial bank. At a

critical time in Mozambique's transition to a free-market economy, IDA quickly supported the creation of a separate Central Bank and an independent private commercial banking sector. Subsequently, IDA and a team of development partners (including the African Development Bank, the United Kingdom, and Germany) built a trusted dialogue with the government that is helping to develop a significantly more competitive and efficient banking sector.

Responsiveness also was crucial in coordinating the response to the floods of 2000 and 2002, when the Bank made use of a broad range of instruments to create a comprehensive response in close coordination with government and international and local development partners. The Bank is similarly involved in reconstruction efforts following the 2007 floods and cyclones—guided by a very effective government response to these crises.

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<http://www.worldbank.org/ida>