

THE INTERNATIONAL MONETARY FUND AND
THE INTERNATIONAL DEVELOPMENT ASSOCIATION

REPUBLIC OF MOZAMBIQUE

**Poverty Reduction Strategy Paper—Progress Report
Joint Staff Assessment**

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June 5, 2003

I. INTRODUCTION

- 1. The government's Action Plan for Reducing Absolute Poverty (Portuguese acronym PARPA; the equivalent to the PRSP) for 2001-05 was approved by the Council of Ministers in April 2001.** In August 2001, the staffs of the Fund and the World Bank assessed the PARPA, concluding that government ownership was strong, the policy agenda was appropriate, and the macroeconomic framework was broadly sound. For the most part, the PARPA integrated and consolidated existing sector strategies and put them in a consistent institutional and macroeconomic framework.
- 2. The joint staff assessment of 2001 expressed concerns about the government's institutional constraints.** It also stressed the need to improve and continuously update poverty surveys and assessments to measure progress and identify the need for changes in the PARPA strategy, to improve social indicators, and to ensure fiscal sustainability.
- 3. In February 2003, the government issued a progress report on implementation of the PARPA covering the period from 2001 through the third quarter of 2002,** which was prepared by the Ministry of Finance in close collaboration with the sectoral ministries. During the production phase of the report, civil society and parliament were not involved. This approach is not in line with the PARPA, which stressed the importance of the consultative process. In the period ahead, the authorities intend to use the report to resume the dialogue with stakeholders on the poverty reduction strategy. To that end, the government has established a Poverty Observatory (OP), and is improving the integration of the PARPA with other major planning tools (the central budget and the expenditure plan). The OP will also facilitate the participation of senior and technical staff whose knowledge about the PARPA is limited.
- 4. Measuring progress with respect to the income and consumption dimensions of poverty is hampered by the absence of reliable and timely data.** To help address this problem, a National Household Survey is being conducted in the field, with the first results expected to become available toward the end of 2003. Similarly, an Agricultural Survey,

which will shed additional light on smallholder production and incomes, should be ready in 2003.

5. **While progress has been made in some sectors, the staffs are of the view that improvements are needed in a number of other areas.** In particular, indications from the education and health sectors are consistent with a decline in poverty levels. However, there is a need to strengthen the participatory process, focus on pending structural reforms, update the medium-term macroeconomic framework, and further improve monitoring of the implementation of the PARPA. In this regard, the staffs present a number of recommendations in paragraphs 34 and 35.

II. PROGRESS OF POVERTY REDUCTION POLICIES AND PROGRAMS

A. Macroeconomic and Financial Management

6. **The PARPA targets a real GDP growth rate of 8 percent a year over the period 2001- 05, repeating the growth performance of the latter half of the 1990s. So far, this objective has been met, with real GDP growth estimated at 10 percent a year, on average, in 2001-02, and projected at 7.0 percent in 2003.** The high growth rates in 2001-02 reflect a rebound from the devastating effects of the floods in 2000, particularly in the agricultural and construction sectors, as well as the positive impact of megaproject construction. Because of relatively relaxed monetary conditions in late 2000 and 2001, inflation in 2001 was well above the PARPA target of 5-7 percent. A tightening of monetary policy in early 2002 facilitated a decline in inflation to 9 percent in that year. The progress report envisages a further fall to 7 percent in 2003 but, more recently, the authorities have revised their inflation target to 10.8 percent, taking into account the impact of the recent strengthening of the South African rand, the regional drought, and higher oil import prices.

7. **The progress report focuses on the social sectors, agriculture, and governance. However, the report fails to highlight the importance of tackling decisively certain structural reforms that are critical to achieving the PARPA objectives of sustaining growth and reducing poverty.** The pending structural agenda includes key reforms to (i) address remaining vulnerabilities in the financial system, including by further strengthening bank supervision and regulation; (ii) increase the efficiency of the public sector through, inter alia, civil service reform; (iii) consolidate reforms in the tax system and public expenditure management; and (iv) reduce labor market rigidities. In addition, the progress report does not address existing constraints on the agricultural sector, including those associated with land tenure and transportation. Addressing these reforms is crucial to stimulating private sector development.

8. **The progress report does not include a revised medium-term macroeconomic framework on the grounds that the framework underlying the original PARPA, which contemplates rapid growth and a strong fiscal effort, remains broadly valid.** The staffs feel, however, that next year's report should include an updated framework incorporating the

possible effects of weaknesses in the financial sector on growth and the fiscal position, and the results of work under way on the impact of HIV/AIDS on government expenditure and the growth prospects. The implications for poverty of different growth rates could also be analyzed. The progress report indicates the government's intention to develop a medium- to long-term strategy for external and domestic debt, which could usefully be included in the updated macroeconomic framework.

9. **While the progress report does not explicitly discuss the key medium-term fiscal issues outlined in the PARPA, namely, those of reducing the dependence on external financing and fiscal vulnerability, there has been important progress in these areas.** Government revenue reached 13.3 percent of GDP in 2001, well above the PARPA target of 12.4 percent, and increased further to 14.2 percent in 2002. At the same time, the domestic primary deficit (excluding the cost of bank recapitalization operations) has been reduced in line with the PARPA strategy. The staffs concur with the emphasis in the progress report on implementing further reforms to strengthen revenue mobilization.

10. **The progress report evaluates the composition of spending and compares planned with actual expenditure.** Preliminary data for 2002 that became available after the report was finalized indicate a rate of budget execution of 95 percent, which is in line with the experience of previous years.

11. The PARPA envisaged that **outlays on the priority sectors**¹ would decline from 69 percent of total budgetary expenditures in 2001 to 66 percent in 2002, before rising to 75 percent by 2005. The progress report shows that government spending in the priority sectors was close to 66 percent in 2001, which is less than had been contemplated in the PARPA. Correspondingly, preliminary information indicates that the share of priority spending in 2002 was 64.5 percent, or slightly below the original PARPA target.

12. Notwithstanding these deviations, the staffs are on the whole satisfied that budget execution is proceeding broadly in line with the PARPA. Moreover, it may not be possible or desirable to increase the proportion of the budget allocated to priority sectors to 75 percent over the medium term because this would severely strain nonpriority—but nevertheless important—sectors. In addition, the PARPA targets did not pay sufficient attention to the efficiency of government outlays and the implementation capacity of sector ministries. Ongoing public expenditure reviews would provide important additional information on these issues, and would permit a revision of the original targets.

B. Improving the Quality of, and Access to, Primary Education

13. **The staffs' assessment is that progress is being made with respect to the PARPA objectives in education.** The principal goal of the PARPA for primary education is to

¹ Education, health, infrastructure (including roads, energy, water), governance (including justice), agriculture, and macroeconomic management.

achieve universal first-level primary education (EP I, or grades 1 to 5) by 2005 by broadening access to schools and improving the quality of services, as well as by increasing female enrollment.

14. The progress report indicates that, although school construction is running far behind its targets, other key measures are on track, including increases in public expenditure, improvements in teacher training, increased textbook availability, and curriculum revision. **The effects of these measures on key PARPA indicators have been positive.** The number of EP I students increased by 5 percent in 2002, with the gross enrollment rate rising from 70 percent in 1998 to 104 percent in 2002. At the same time, girls represented 44 percent of enrollment in 2001, meeting the PARPA target. The primary school system is also becoming more efficient. A recent analysis indicates that the cohort survival rate for the last year of EP1 increased significantly, reflecting a reduction in dropout and repetition rates.

15. **Despite these advances, the efficiency of the education system in Mozambique is still low.** In particular, more aggressive action is needed to improve the quality of teaching, especially in the rural areas, where more than half the teachers are untrained. Also, progress in the next level of education (EP II, or grades 6-7) has been significantly slower than in EP I, with the EP II gross enrollment rate remaining below 30 percent. The discussion in the progress report appears to focus mostly on curriculum change and training, but it could have also analyzed the socioeconomic and sector-specific factors that underlie the low completion rates, as well as remedial policies in this area (e.g., rationalizing teacher allocation by merging lower and upper primary school systems).

16. With assistance from donors and the World Bank, the authorities are conducting a **public expenditure review** that will provide further insights into the effectiveness of social spending, including in the education sector.

C. Expanding the Coverage and Quality of Health Care

17. **Overall, the staffs' assessment is that the PARPA plans in primary health care are largely being followed and are having a measurable impact on related social indicators.** The 2001 PARPA incorporates the government's Strategic Plan for Health, emphasizing the need to broaden access to primary health care and improve its effectiveness, especially for rural areas and vulnerable groups, and to combat transmissible diseases (malaria, tuberculosis, leprosy, and HIV/AIDS), which are the main causes of mortality and morbidity.

18. The principal actions highlighted by the PARPA include improving sector planning and management; rehabilitating infrastructure; training basic health caregivers; and ensuring that all health centers are well equipped. The progress report does not explicitly indicate whether all these actions have been implemented, although the available evidence shows a significant improvement in health care and related indicators, particularly with respect to attended births, maternal and infant mortality, and vaccination coverage.

19. **The improvements in these indicators, however, have fallen short of those anticipated in the 1990s.** This is partly explained by the impact of HIV/AIDS, but also by shortcomings in expanding coverage. In this connection, the distances to be traveled to health posts continue to be a problem, and the user fees charged for health services are frequently higher than those set officially.

20. **The progress report would also have benefited from a more thorough discussion of the reasons for the weak response of health outcomes to the inputs.** In particular, there is no discussion of user fee arrangements or of a beneficiary assessment carried out in 2001. Looking ahead, the public expenditure review under way includes an innovative expenditure-tracking exercise in the health sector that would contribute to identifying areas for efficiency gains.

21. The 2001 PARPA incorporated the National Strategic Plan to Combat sexually transmitted diseases and HIV/AIDS approved in October 1999, which intends to slow the spread of the infection and mitigate its effects through prevention, support, and care activities. The staff's assessment is that satisfactory progress is being made in responding to HIV/AIDS. Education and information campaigns on the HIV/AIDS epidemic have been carried out; 24 Voluntary Testing and Counseling Offices were opened in 2001 and the first half of 2002; and it is envisaged that 50 offices would be fully operational by 2007. In addition, the PARPA's target of 24,000 tests for 2002 was exceeded.

D. Encouraging Agricultural Growth and Rural Development

22. **The PARPA's strategy for agriculture and rural development emphasized the need to transform public institutions to support an expansion of output through the provision of essential services, including infrastructure, education, health, and financial services.** The progress report focuses on recent production gains in some key crops as indicators of progress, but it is not clear the extent to which policy improvements or better services to farmers explain these gains. To varying degrees, some sharp increases in production appear to reflect a recovery from the 2000 floods.

23. **The section on agriculture in the progress report lacks data on implementation and outcomes, and does not adequately assess implementation of the PARPA program for the sector.** To a large extent, this reflects the focus of the Ministry of Agriculture on PROAGRI, the Integrated Program for Agricultural Development, which is less comprehensive than the PARPA and puts less emphasis on intersectoral linkages. PROAGRI focuses on rationalizing the Ministry of Agriculture, decentralizing functions, and strengthening extension services. There is a need to fully incorporate the Ministry of Agriculture into the monitoring process of the PARPA, which would permit a closer integration of the PARPA with PROAGRI.

24. **Aside from the shortcomings referred to above, external financing of PROAGRI has enabled the Ministry of Agriculture to substantially increase its operational capacity.** There has also been progress on decentralization, as provincial directorates are

allocated their own budgets, do their own procurement, and distribute funds to the districts. The districts, in turn, are now allowed to prepare their budgets and to procure equipment and supplies. In all, however, this has not yet translated into major improvements in the availability or quality of the services provided to farmers. Moreover, despite efforts to expand and modernize extension services, effectiveness and coverage remain limited.

25. **Road maintenance is essential for the efficient and effective transportation of agricultural inputs and outputs.** In the first half of 2002, the government's road maintenance program was running well behind schedule, partly because of the diversion of resources to repair flood damaged roads. The more systemic problem, however, is that the road maintenance program is not yet based on periodic surveys for estimating costs, setting priorities, and scheduling maintenance.

E. Strengthening Governance, Legality, and Justice

26. **The 2001 PARPA stressed the need for good governance as a condition for poverty reduction. Significant progress is being made in implementing the key components of the program,** which involve decentralizing political and administrative functions, increasing the efficiency and transparency of the legal system, fighting corruption, and strengthening public finances.

27. **The structure of the government is being reviewed and reorganized** with the guidance and support of the Inter-Ministerial Commission for Reform of the Public Sector (CIRES) and its Technical Unit (RESP) and all ministries are expected to complete a mapping of their structures and an analysis of their functions by end-2003. Moreover, specific restructuring plans are being developed for each ministry, with the Ministries of Education, Health, and Agriculture expected to initiate the restructuring process in the second half of 2003.

28. In addition, a cooperative effort is under way with the support of several international agencies to implement a national program for the **decentralization of planning and finance.** In this connection, plans have already been developed to begin decentralization in six provinces. The main goals are to recognize the legitimacy of local consultative councils, provide the basis for reorganization of district governments, and formalize the role of districts in the national planning system. Looking ahead, there is a need to clarify the rules for allocating resources to subnational governments, proceed carefully with the transfer of these resources in order to prevent a loss of control by the central government, and ensure that adequate financial, administrative, and reporting capacity is established at the subnational levels.

29. The measures included in the 2001 PARPA in the areas of **legality, justice and public order** are designed to raise the capacity, efficiency, and transparency of the legal system and increase its ability to respond to the needs of the private sector. The Ministry of Justice, the Administrative Court, the Supreme Court, and the Attorney General's Office have finalized an overall strategic plan and detailed operational plans, whose implementation

is expected to start in 2003 and would be completed by 2006. Measures will include, inter alia, the decentralization of the justice system by establishing courts in rural areas and intermediate level appeal courts to reduce the burden on the Supreme Court. Significant challenges remain, and the process of modernizing legislation is likely to take longer than the four years envisaged in the strategic plan, particularly because of the need to develop a suitably trained cadre of legal and judicial personnel.

30. While important challenges remain, the authorities are making progress toward achieving the PARPA objectives in fighting corruption. An anticorruption strategy approved in October 2001 will be revised, based on the findings of a survey of public perceptions to be carried out with donor funding, and an anticorruption law being prepared by parliamentarians, which contains reforms to the penal code, is expected to be passed in 2003. In addition, the Ministry of Justice has established an anticorruption unit to investigate reports of corruption and proceed with prosecution when warranted.

31. The public finance management system is being modernized to increase transparency and improve budgetary control and decentralization. The first step in this process was the passage of the public finance management law in 2001 and its corresponding regulations in 2002. The reform process envisages the introduction of (i) adequate rules and procedures for programming, budgeting, and controlling public resources, (ii) a system for providing timely and reliable information on budgetary performance, (iii) improved procedures for budgetary accounting, and (iv) internationally acceptable internal auditing rules. The implementation of these reforms and the establishment of an integrated financial management system (SISTAFE) is being supported by donors. The new system will be introduced in two ministries during 2003 and in the remaining ministries in 2004. A new classification system for expenditures was used in the 2002 budget to improve analysis, and budget coverage has been extended with increased, though still incomplete, reporting of ministerial own funds and donor-funded expenditures. These advances have revealed the need to develop provincial, sectoral, and overall capacity in analyzing expenditure data and linking expenditures with outcomes.

III. MONITORING, EVALUATION, AND DISSEMINATION OF THE PARPA

32. The overall responsibility for implementing and monitoring the PARPA has rested, so far, with the Ministry of Finance and Planning. Currently, the PARPA is being integrated into the national planning system in order to ensure consistency. The Plano Econômico e Social (PES, Social and Economic Plan) and the Orçamento do Estado (OE, the budget) together generate a set of objectives, actions, and programs that permit an annual review of PARPA implementation. Monitoring is based on information provided by the PES and the Relatórios de Execução (budget execution reports). Moreover, an overall expenditure management review was conducted in 2001, and the analysis of five major ministries is under way, with assistance from donors and the World Bank.

33. The monitoring of the PARPA has been facilitated by the preparation, for the first time in 2002, of a detailed matrix of PARPA activities by sector, and by a

comparison of objectives, targets, and outcomes during 2001 and the first half of 2002. The preparation of the matrix has revealed the need to systematize information about the PARPA priorities, and to monitor a limited number of concrete sectoral performance indicators. Monitoring is constrained, however, by the quantity and quality of data furnished by sectoral agencies (e.g., the lack of survey data on agricultural production and of expenditure data on major health programs, such as the Malaria Control and Tuberculosis Control). For future progress reports, it would be useful to consider the Millennium Development Goals (MDGs), in conjunction with the PARPA targets, for monitoring purposes.

34. **The involvement of domestic and foreign partners will be taken into account in the planning process.** The donor community has moved strongly in support of the PARPA process and is working with the government on aligning the various institutions' budget support programs to the PARPA objectives. Moreover, a broader consultative forum for dissemination and discussion of the PARPA objectives and accomplishments is being provided through the OP, which held its first full meeting in April 2003, with the participation of government managers in key PARPA areas and representatives of the civil society and international partners. The staffs welcome these developments.

35. **Based on emerging lessons, the progress report contains a number of important recommendations on implementation and monitoring. The staffs are in broad agreement with these recommendations, which the authorities intend to implement during 2003:**

- ensure that the budget execution reports and the PES have matrices of programs and strategies reflecting the PARPA priorities to facilitate implementation and monitoring;
- regionalize projects and programs and resource allocations to reflect the government's decentralization objectives;
- strengthen knowledge among sector staff responsible for planning, implementing, and monitoring the PARPA, and have sector units prepare an evaluation of PARPA-related activities for submission to the Ministry of Finance and Planning; and
- reduce the number of actions in the PARPA, with the objective of eliminating low-priority activities to improve its focus and facilitate implementation and monitoring.

Regarding the government's decentralization objectives, the staffs would caution the authorities against moving forward at a fast pace without ensuring that an adequate administrative and financial capacity is in place at the subnational level. **In addition, the staffs would urge the authorities to focus on the following over the next year:**

- Support the activities of the Poverty Observatory by establishing an intersectoral/interministerial working group headed by the Ministry of Finance and Planning to monitor and evaluate progress in PARPA implementation.
- Update the macroeconomic framework for next year's progress report on the PARPA. This would involve incorporating the results of work under way on the impact of HIV/AIDS on public expenditure and analyzing the implications of different growth rates for poverty.
- In reducing the number of actions, update the PARPA policy matrix and include this in subsequent annual progress reports. Also, consider using the MDGs in conjunction with the PARPA targets for monitoring purposes.
- Strengthen the participatory policy dialogue and the way this dialogue is reflected in the next progress report, including by citing the policy adjustments made in response to past outcomes. In the area of education, for example, examine further the reasons behind the poor outcomes in terms of completion rates and identify specific actions to address this problem.
- Ensure that the management team of the Ministry of Agriculture focuses on the PARPA and improves intraministerial information flows.
- Accelerate efforts to complete the National Household Survey, which will provide comprehensive data for a fuller assessment of the impact of the recent rapid growth on poverty.
- Improve the statistical basis for economic and social planning and strengthen the monitoring of the PARPA.

36. The staffs believe that these recommendations are realistic and achievable. Moreover, sufficient technical assistance is already being provided to ensure their smooth implementation.² **In addition, the staffs would recommend that the following steps be taken over the coming years:**

- Address the pending structural reforms, in particular those relating to vulnerabilities in the financial sector.
- Use the annual progress reports to inform domestic stakeholders and build support for the government's poverty reduction strategy. In this regard, better planning of the

² Several donors, as well as the Fund and World Bank, are supporting the government's efforts to strengthen statistical information. The government is also developing an action plan in this area, drawing upon the data module of a Report on the Observance of Standards and Codes conducted in 2002. With respect to HIV/AIDS, the World Bank is completing a study on its impact on economic growth.

consultation process is warranted, as well as greater involvement of parliamentarians and local governments .

- Improve poverty analysis, including gender and vulnerability issues. In particular, elaborate on the risks of natural disasters and food insecurity; analyze the contribution of the megaprojects and of broad-based sources of growth (i.e., agriculture) to poverty reduction; and examine the key constraints to private investment.

37. **Preparation of the progress report has been a valuable learning experience that has provided candid insights into the difficulties involved in the implementation and monitoring of the PARPA.** It has revealed that implementation did not sufficiently focus on the highest priorities, that sector management and information flows should be strengthened, and that the lack of data makes it difficult to quantify progress toward poverty reduction goals. It has also provided a view of the pace of implementation. In this regard, the health and education programs are moving ahead and producing positive results, and progress is being made in strengthening institutions and governance. Agriculture, however, appears to be the weakest link. Ownership of the PARPA remains strong. The priority now is to address these issues and ensure that the PARPA strategy incorporates the lessons that have been learned.

38. **The staffs of the World Bank and the IMF consider that Mozambique's efforts to implement the PARPA strategy are sufficient evidence of its commitment to poverty reduction,** and that the strategy continues to provide a credible poverty reduction framework and a sound basis for World Bank and Fund concessional assistance. The staffs recommend that the Executive Boards of the World Bank and the IMF arrive at the same conclusion.