

THE INTERNATIONAL MONETARY FUND
AND THE INTERNATIONAL DEVELOPMENT ASSOCIATION

MOZAMBIQUE

Joint Staff Assessment of the Poverty Reduction Strategy Paper
Prepared by the Staffs of the International Monetary Fund and the International
Development Association

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I. INTRODUCTION

1. The Government of Mozambique has been working on poverty reduction for over a decade. During the early 1990s, following thirty years of civil war, poverty reduction was part of the national reconciliation process. In 1995, an initial poverty reduction strategy was formulated and a poverty unit was set up in the Ministry of Finance and Planning, which steered the first National Poverty Assessment in 1996/7. In 1999, a policy framework for poverty eradication was developed in the form of 'Guidelines' and an 'Action Plan' for the 'Eradication of Absolute Poverty'. The latter document was incorporated into the interim-PRSP, and submitted to the Boards of IDA and the Fund in March 2000.

2. The full PRSP (PARPA 2000–05) is a significant improvement over the interim-PRSP (PARPA 2000–04). It has a fuller diagnosis of poverty, improved prioritization of sectoral programs, an expanded justification of macroeconomic policy, a new priority area on good governance, and a financing plan linked to the Medium Term Expenditure Framework. Above all, both PARPAs have been disseminated to donors, civil society groups and the private sector, and PARPA 2000–05 was modified in important aspects as a result.

3. Some weaknesses remain, particularly with regard to the identification of risks to the strategy and the costings of targeted improvements in social indicators. The latter mainly reflects institutional capacity constraints, which are being addressed in the near term (see paragraphs 28 and 29 below). The government views the PARPA as a 'rolling and dynamic programming tool,' and is committed to an ongoing process of development through consultations, dissemination, monitoring and review.

II. COUNTRY OWNERSHIP AND PARTICIPATION

4. There is strong government ownership and commitment to the goal of poverty reduction, and the PARPA in particular. The document has been wholly produced by the government, with virtually no donor support. It was prepared by a policy unit in the

Ministry of Finance and Planning, in coordination with the line ministries. It has been approved by the Cabinet as the overarching framework for government policy, and has been fully integrated into government planning, budgeting and reporting processes.

5. Mozambique has a centralized government tradition that tends to approach participation primarily as information dissemination and consultation on prepared documents. Consultative mechanisms have been developing rapidly at the sectoral level (detailed in Annex 1 of the PARPA), but neither government nor civil society organizations have much experience with partnership in policy analysis and design. However, within this context, there has been extensive consultation on this PARPA/PRSP, which is detailed in Annex 2.

6. During 2000, the I-PRSP (PARPA 2000–04) was published and disseminated in Maputo and in a number of provinces, along with provincial poverty profiles. Towards the end of the year, a number of consultations were held with specific stakeholder groups, including donors, the private sector, the media, civil society organizations, and community leaders to discuss early drafts of the full PRSP. Representatives of these groups told staffs of the Bank and Fund that they welcomed the consultations, although they would have appreciated more advance planning of the process.

7. The consultations provided confirmation that the PARPA priority areas were the right ones, and stressed the need to improve implementation and delivery and to address problems of governance and corruption. There was, in addition, some criticism of specific policies and some complaints of unethical behavior amongst some public servants in schools and health centers. This feedback is briefly described in the PARPA 2000–05, along with details of how the strategy was revised as a result.

8. The PARPA sets out plans for further deepening the consultative process, with greater involvement of parliamentarians and local government, building on participatory planning at district level. However, the institutional arrangements for steering this process, as well as the ongoing development and monitoring of the PARPA in general, have yet to be delineated. Publicly available details of such arrangements would clarify the decision-making process for stakeholders outside the Ministry of Finance and Planning, and would make the participatory process more effective in future.

III. POVERTY DIAGNOSIS

9. Mozambique is fortunate to possess good quality poverty data in the form of a Household Consumption Survey (1996–97), a Demographic and Health Survey (1997) and a Population Census (1997), and extensive quantitative analyses of these data, which are briefly summarized in the PARPA.¹ The quantitative analysis is complemented by qualitative information from an early Participatory Poverty Assessment (1995–96), and the provisional results of new Participatory Rural Assessments, carried out in January 2001. These data provide a good basis for an analysis of the characteristics and causes of

¹ *Understanding Poverty and Wellbeing in Mozambique: the First National Assessment (1996-97)*, Ministry of Finance and Planning, Eduardo Mondlane University and IFPRI, Maputo 1998; and the *National Human Development Report 1999*, UNDP, Maputo 2000.

poverty in Mozambique during the late 1990s. However, time series data are only available for some social indicators; as a result an analysis of trends in income poverty, including a fuller assessment of the impact of policies on poverty reduction will have to await the conclusion of a new household consumption survey currently underway.

10. The staffs agree with the broad conclusions of the poverty analysis, but note that there are some weaknesses, particularly regarding gender and vulnerability². Gender is only referred to in the context of household headship, educational attainment and maternal and child health. There is no discussion of the causes of gender inequality and little in terms of policy interventions to address it. There are few gender-specific targets, and the PRSP fails to build on recent work by donors on gender inequality and on recent policy reforms aimed at strengthening women's legal rights.

11. In general, issues of vulnerability are not given a high priority in the PARPA. It does not play a large part in the poverty diagnosis, and social protection is not included as a priority sector. There is relatively little mention of natural disasters and food insecurity, which is surprising, given the recurrence of such disasters. HIV/AIDS is only analyzed in terms of its macro-level effects on demographic and economic growth; its contribution to new forms of vulnerability is not described.

12. The future poverty research agenda mentioned in the PARPA is appropriate; this includes alternative methodologies for the establishment of poverty lines, benefit incidence analysis of public services in education and health, and poverty mapping in order to identify poverty foci at the district level. However, the staffs would urge the government to give priority to analyzing poverty trends, once the new data become available, in order to understand the distributional impacts of recent growth and government policy. For example, the social indicators in table 2.6 show a mixed picture, with significant increases in school enrolments and vaccination coverage, but little movement in school retention and infant nutrition. These data suggest that a more critical analysis of the poverty impacts may be warranted.

IV. THE POVERTY REDUCTION STRATEGY

13. The overall objective of the PARPA is to reduce poverty by about 30 percent over thirteen years, from 70 percent in 1997 to below 60 percent in 2005 and 50 percent by 2010. The basis for these figures is not given, although they appear to be drawn from computer simulations of the poverty impact of different growth scenarios, based on the household consumption survey of 1996/7 (table 3.2). The table suggests that this goal would be conservative if the high growth rates projected by the PARPA were achieved. However, in view of the limited information on the actual distributional effects of recent growth, it is difficult to evaluate this objective. Future versions of the PARPA should elaborate on the linkages between growth and poverty reduction.

² Vulnerability is very difficult to measure, especially (as in the case of Mozambique) in the absence of panel data.

14. The public action strategy of the PARPA emphasizes economic growth, public sector investment in human capital and productive infrastructure, and institutional reform to improve the enabling environment for the private sector investment. To implement this strategy the document identifies *six priority areas* and *eleven complementary areas*.³ Good justifications are provided for the selection of the priority areas, which are broadly in line with the poverty diagnosis and were confirmed during the consultations with civil society and the private sector. The staffs consider the selection of priority areas to be appropriate, although protection against natural disasters could be given greater emphasis.

15. Substantial progress with policy prioritization has been made, with respect to the interim PRSP. This has been achieved in three ways: first, through the distinction between the priority and complementary programs; second, through the identification of key measures within each of the priority sectors; and third, through the setting of targets and milestones in the operational matrix. The staffs welcome the progress with prioritization and agree that the areas prioritized are the right ones, although in future, more information about policy choices and trade-offs would be welcome. It is also likely that further prioritization will be needed, and this could be achieved with more attention to regional priorities and the sequencing of reforms.

Growth and macroeconomic policy

16. The PARPA stresses that economic growth must be both rapid and broad-based to benefit the poor, and the strategy is based on an average growth rate of 8 percent for the period 2001–2010. The sources of growth include production from identified large-scale, capital-intensive projects financed with private foreign capital ('megaprojects'); productivity and value-adding gains in agriculture and small manufacturing; and a general expansion in internal trade, transport and services. These processes would be complemented by public investment directed towards poverty-reduction objectives. Moreover, as indicated in the PARPA, Mozambique needs to continue to work towards developing an enabling business environment, for domestic as well as foreign investment.

17. Attainment of this ambitious growth objective—which would maintain the performance of the last five years—requires continued macroeconomic stability and a deepening of the reform program. The staffs agree that, as indicated in the PARPA, there are important uncertainties that will need to be carefully monitored and may need to be incorporated into annual revisions of the framework. In particular, the recent heavy flood damage—which lowered the growth rate to just over 2 percent in 2000—illustrates the risk that periodic exogenous shocks may constrain the actual growth in output. In addition, while the likely impact of AIDS in Mozambique has yet to be fully understood and quantified, the high rates of HIV infection (about 16 percent of the adult population) in Mozambique may also lower the rate of growth.

³ The *priority areas* are education; health; agriculture and rural development; basic infrastructure; good governance; and sound macroeconomic and financial management. The *complementary areas* are: employment and business development; social action; housing; mines; fisheries; tourism; industry; transport and communications; technology; the environment; and protection against natural disasters.

18. The staffs agree that a number of private sector megaprojects, in the area of hydroelectric power and natural resource extraction, are likely to contribute very significantly to medium-term growth. Indeed, by focusing only on the already identified projects of this nature, the framework may understate the role to be played by large scale private investment, particularly in the outer years. However, the PARPA could more explicitly address the contribution of the megaprojects to poverty reduction. The nature of these projects, which are highly capital- and import-intensive and geographically concentrated in the south of the country (where the incidence of poverty is lower), suggests that their links to poverty reduction are indirect. Nevertheless, the staffs recognize that the success of these projects will send an important signal to attract other potential investors in Mozambique's development corridors. Other sources of growth could also be more fully elaborated in the PARPA, in particular, the reasons for the envisaged strong growth in the agricultural sector (see also paragraph 27 below).

19. The staffs consider the macroeconomic framework of the PARPA to be broadly sound.⁴ The staffs fully support the central role assigned to the maintenance of macroeconomic stability, including annual inflation of 5–7 percent, in fostering higher growth. As stressed in the PARPA, a prudent fiscal policy to limit recourse to domestic financing and support monetary restraint will be key to maintaining stability. The staffs support the Government's stance of applying a strong fiscal adjustment strategy both in the short term—sharply reducing the deficit and spending in 2002 after the temporary increases to meet emergency and reconstruction spending after the floods and bank restructuring cost—and in the medium term to reduce its current exceptionally high level of aid-dependency and ensure fiscal sustainability. To this end, the staffs welcome the government's plans, stated in the PARPA, to develop a medium-to-long-term strategy for external and internal debt, following the debt relief initiatives of recent years.

20. The staffs agree with the emphasis placed on raising revenues from their current low level of 12.4 percent of GDP to over 15 percent of GDP by 2005, through a combination of continued reforms of the tax system and improved administration. The risk, noted above, that growth may fall short of the objective implies a related risk that the framework may overestimate the medium-term budget envelope. In addition the staffs are of the view that it may be prudent to anticipate a somewhat sharper decline in external support for the budget as a percentage of GDP in the outer years, in line with the objective of reducing aid dependency. The strategy embodied in the medium term fiscal scenario also implies a rationalization of spending over the medium term. The staffs welcome the priority to be given to expenditures for poverty reduction (see below) so that the objectives of the PARPA can be met while reducing aid dependency. However, the PARPA would benefit from a fuller discussion of how savings are to be achieved in other areas, by improving expenditure control and the effectiveness of the spending through, inter alia, the implementation of the new financial management law.

⁴ The staffs concur with the underlying assumptions and policy stance of the macro framework, over the next few years, which is reflected in the evolution of the fiscal and external balances. However, long-run economic growth may be somewhat lower than the 8 percent projected by the authorities. In addition, the staffs consider the wide annual movements in private savings—derived as a residual in the framework—to be the result of problems of classification of expenditure aggregates and not indicative of the underlying behavior of the private sector.

21. The staffs agree with the acknowledgment in the PARPA that minimizing the risks of financial crises is a major objective of financial sector development. The recent difficulties surrounding the resolution of a large insolvent bank (Banco Austral) have underlined the need for strong banking supervision. However, the staffs note that this issue did not come to a head until after the text of the PARPA was finalized .

Governance

22. The staffs welcome the emphasis placed on good governance, which is one of the priority areas in the PARPA,⁵ in particular, the attention given to enhancing transparency, accountability and the capacity and effectiveness of public institutions. A number of important initiatives are underway in these areas, especially the new Public Financial Management Law and the Integrated Strategic Plan for the Justice Sector, both expected to be completed before the end of 2001. The staffs welcome the attention given to decentralization and local participatory planning as mechanisms for improving local service delivery and accountability.

23. The PARPA is the first widely disseminated official document of the government to recognize the need to address corruption, which was one of the issues raised during the consultation process. The authorities are clearly at the early stages of a response on this issue; the document does not provide an analysis of the nature of the problem and detailed concrete proposals to address it, nor does it set out clear objectives or indicators of progress in this area. Nevertheless, the staffs believe that the systemic reforms envisaged to improve governance and the legal system will be crucial to a sustained reduction in corruption and welcomes more recent measures taken to strengthen the ministry of justice and related agencies and to establish an Anti-Corruption Commission. Future versions of the PARPA should provide more detail on these measures and progress with their implementation. Concerted efforts and progress in tackling corruption will be essential in establishing the conditions for equitable growth supported by private investment, and donor assistance.

Sectoral policies

24. The PARPA's improved treatment of macroeconomic and governance issues, complements its strong sectoral focus, which emphasizes human and rural development. As mentioned, this emphasis is appropriate, in the light of the low social indicators and high incidence of rural poverty.

25. Given the important role of education for pro-poor growth, and the low levels of post-primary education, the staffs agree with the strategy of expanding access to the system at all levels. However, the policy would benefit from greater attention to increasing quality, as indicated, for example, by improved retention rates. Improvements

⁵ Governance subcomponents include decentralization, legal and judicial reform, strengthening institutions that interface with the private sector, protection of frontiers, rationalization of public finances and anti-corruption measures.

in teacher training and incentives would be an important part of this process. Issues of planning, budgeting and decentralized management should also receive greater attention.

26. In the health sector, the PARPA focuses on primary health care (PHC), combating the major epidemics, improving the network of basic health facilities, developing human resources, and improving planning and management for the sector. These measures will be implemented through the recently approved Health Sector Strategic Plan, and will improve health services for the poor and reduce the health risks to which they are disproportionately affected. Special attention is given to HIV/AIDS in the health sector, although the PARPA has relatively little to say about the broader cross-sectoral actions contained in the National Strategy against STD/HIV/AIDS. Future policy analysis would benefit from a broader approach to combating HIV/AIDS.

27. The promotion of rural development through the provision of basic infrastructure, agricultural extension, and assistance with credit and marketing are clearly important interventions in a country with such a large, impoverished rural population. The overall growth strategy includes annual average growth of 8 percent in agriculture, based on expansion in cash crops and increased production of food crops. However, the PARPA could be strengthened by a consideration of the key constraints to investment and growth in the sector, including uncertainties over land rights, high transportation costs and volatile international prices.

Costing, budget and financing

28. In general, Mozambique's public expenditure management systems are weak, and budgetary classifications have not facilitated the identification and tracking of poverty expenditures. Cost data are not centralized and uniform, and not easy to obtain outside of multi-donor funded sector programs (SWAPS).⁶ As a result costing and budgeting processes need to be strengthened. These issues are now being addressed in the context of the participatory Public Expenditure Review currently underway and the new Public Financial Management Law. Although a new detailed classification system will be implemented with the 2002 budget, meaningful policy-enhancing results may take some time.

29. In this context, the proposals for the financing of the PARPA have mainly relied on the establishment of budget targets for the priority areas, based on a projected budget envelope for 2001–05. Nonetheless, the staffs' view is that the proposed public expenditure program is consistent with the priorities of the strategy. This program is anchored in the Medium-Term Expenditure Framework (MTEF)⁷, linking the broader vision of growth with the shorter-term budgetary implications. The staffs welcome that the PARPA contemplates the inclusion of remaining undeclared own receipts⁸ (“off-budgets”) in the budgetary process during 2002. Unit costs are provided for those sectors

⁶ The budget ceilings set by the Ministry of Finance and Planning are based on funding proposals drawn up by the line ministries, which are apparently based on internal cost calculations. However, the staffs have limited information about the nature of these calculations, particularly those outside sectoral programs.

⁷ The Mozambican MTEF is officially known as Medium-Term Fiscal Scenario 2001–05.

⁸ Funds collected by ministries that are not recorded in the budget.

that have them (education, health, and infrastructure) as an illustration of future work to be undertaken, rather than as underpinnings for the expenditure program.

30. The PARPA budget indicates that the proportion of total expenditure allocated to the priority areas (education, health, infrastructure and agriculture and rural development) will rise from almost 60 percent in 1999 to 67 percent in 2003.⁹ As a percentage of GDP, expenditure in the priority areas is projected to rise from 13 percent in 1999 to 19 percent in 2003.

31. Total projected expenditure is disaggregated in terms of the priority sectors (Table 7.4) and further disaggregation within these sectors is presented in Table 7.5. It should be noted that the selected priority expenditure lines within sectors remain fairly constant over the 2001–05 period and there is little discussion of possible changes in allocations between sectors or subsectors.

32. The budgeting exercise presents a single scenario without any contingency plans in the case of a shortfall in revenues or financing. As mentioned, it is based on ambitious assumptions regarding the GDP growth rate, revenue effort, and concessional and grant financing. The staffs expect that some of these issues will be reviewed during the next medium-term programming exercise, for the period 2002–06.

Targets, Indicators and Monitoring

33. The monitoring of the PARPA will be integrated into the regular system of quarterly and annual government reports to Parliament. A special annual poverty report will also be prepared, based on both quantitative and qualitative data. The PARPA does not specify the form of the poverty report, but ideally it should include monitoring at three levels: sectoral performance; execution of programmed expenditures and revenues; and changes in welfare as measured by poverty and social indicators. The main quantitative data sources will be (a) administrative data produced by the line ministries, and (b) annual household surveys of key welfare indicators (*Core Welfare Indicators Questionnaires*)¹⁰. The key institutions involved in producing these data are competent and committed to establishing a sustainable monitoring system.

34. In general, government reporting to Parliament is based on the monitoring of inputs and activities more than on outcomes or results, and the operational matrix has been devised with this purpose in mind (although it does include some output measures). It was developed through discussions between the Ministry of Finance and Planning and the line ministries and is consistent with existing sectoral targets. The indicator table in the monitoring section represents an initial attempt to focus on a smaller number of key targets and indicators for each priority area, with a clearer distinction between intermediate and outcome indicators. However, some of these measures are provisional, as in some cases the precise quantities still need to be established and the relevant data sources defined. Targets and indicators are best specified in those sectors that have

⁹ Or, in dollar terms, from approximately US\$542 million in 1999 to US\$705 million in 2003.

¹⁰ QUIBB in Portuguese.

SWAPS in place and for the most part they are realistic (e.g. education, health). As reporting on the PARPA becomes more institutionalized, a further refinement of its indicators may be expected. In that process, the link to poverty outcomes should be strengthened.

35. The PARPA recognizes that civil society would play an important role in poverty monitoring, although it is not clear how this would be organized. This aspect will be of critical importance for both the credibility and legitimacy of the PARPA and that of the consultation process itself.

Risks to the strategy

36. The PARPA does not analyze the risks to the strategy. These risks are mainly associated with Mozambique's ability to continue growing at the high rates observed in the second half of the 1990s—which is especially important given the central role of economic growth in the PARPA strategy. First, the negative impact of the severe floods in 2000 highlights the risks to the strategy from natural disasters, particularly in the agricultural sector. Second, the social and economic consequences of AIDS/HIV could be substantially higher than reflected in the PARPA. Third, although the projections include only already identified megaprojects, implementation of these may be vulnerable to unforeseen market developments or political risks. Given the large role of megaprojects in the growth strategy, the impact of growth on poverty reduction may also be less than anticipated. Fourth, the strategy rests upon a single scenario which does not indicate the likely response to less favorable developments, including possible shortfalls in revenue or grant financing. Finally, implementation of the strategy will depend crucially on efforts that are now underway to strengthen institutional capacity. All of these factors indicate the need for caution and, as the PARPA notes, the likely need for revisions to macroeconomic projections in the light of developments.

V. CONCLUSIONS

37. Compared with the I-PRSP, the PARPA/PRSP represents a major step forward in Mozambique's fight against poverty. There is a stronger link between the poverty diagnosis and the policy agenda, improved integration of macroeconomic policies, institutional reforms and sectoral programs, better prioritization and clearer, monitorable targets. There is increased ownership through the consultation process.

38. There is room for further development of the poverty analysis, particularly including aspects of gender, HIV/AIDS and vulnerability. Regarding the policy programs, there is a need for further attention to prioritization and sequencing, and a greater emphasis on implementation (including aspects of quality and efficiency as well as access). Above all, there is a need to deepen and institutionalize the participatory process, so that a wider group has ownership of the PARPA. In this connection, the staffs welcome the authorities' intention to enhance the consultative process with greater involvement of parliamentarians and local government.

39. In view of the considerable progress made since the interim PRSP, the strong ownership of the PRSP/PARPA, and the commitment to its further development, the staffs of the World Bank and the IMF consider that it presents a credible poverty reduction strategy that is a sound basis for IDA and Fund concessional assistance. The staffs recommend that the Executive Directors of the World Bank and the IMF reach the same conclusion.