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## **2015 Country Brief for Mozambique**

**Prepared by UNDP Economic and Policy Advisory Team in Mozambique**

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*Country Case: Mozambique*



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The present country brief was prepared by UNDP Mozambique, as a part of efforts to further build up the repository of evidence and good practices on the implementation of the effective development cooperation principles at the country level and facilitate mutual learning under the umbrella of the Global Partnership for Effective Development Cooperation (GPEDC).

## Highlights for Mozambique

- 1. Dynamic change in development cooperation landscape, both nationally and internationally**
- 2. Good mutual accountability mechanism through budget support scheme**
- 3. Needs to reshape development cooperation architecture to be more inclusive**
- 4. Integrate development cooperation and other sources of financing into a broader financing for development agenda**

### I. Introduction

Mozambique has made a significant transition from a war-devastated country to a democratic and market driven economy in the past two decades. Strong GDP growth has averaged over 7% in the past decade and the relatively stable macroeconomic environment has attracted large Foreign Direct Investment (FDI) to Mozambique. Nevertheless, poverty rate is still high at 54.7% in 2009<sup>1</sup> (INE, 2010). Strengthening bilateral relationship through private sector investment created a dynamism, in which donors, both traditional and non-traditional, enhanced their active participation in development cooperation to eradicate poverty in Mozambique. According to the OECD, Mozambique received USD \$2.314 million in 2013, making it the sixth top ODA recipient in Africa and representing 4% of the total ODA for Africa (OECD, 2015).

Development cooperation has been the cornerstone of Mozambique's development for decades, providing both financial and technical support to recover from the civil war that ended in 1992. Approximately 80% of its population was living in poverty at that time and the post-war reconstruction efforts caused an accumulation of external debt around US \$3.4 billion<sup>2</sup> by end-2000, several times the value of its GDP at that time (IMF, 2001). Under the Heavily Indebted Poor Countries Initiative (HIPC), development partners agreed to reduce the debt to a sustainable level and Mozambique thus regained the control of public finance to allocate adequate budget for socio-economic development programs.

Development cooperation has been playing an important role not only in the post-war emergency assistance but also towards supporting major economic structural reforms and the economic growth that Mozambique is currently experiencing. Among all, the General Budget Support (GBS) is an essential component of development cooperation, which was first introduced in 2000 with a formal agreement between the Government of Mozambique (GoM) and a group of six donors. It was then expanded in 2004 to comprise 19 countries with the signing of a memorandum of understanding (MoU), known as Programme Aid Partners (PAPs). This development cooperation architecture allowed the country to implement the Paris Declaration (PD) principles as well as the subsequent Busan

<sup>1</sup> Population living below the national poverty line at 0.6 USD per day.

<sup>2</sup> Net official debt on a net present value (NPV) basis



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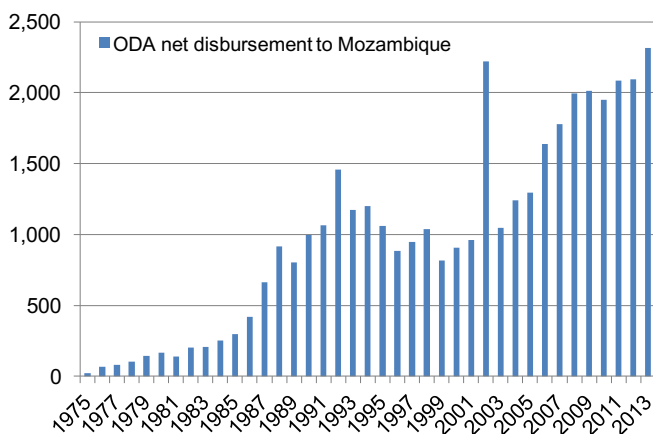


commitments. Participation in both the PD and Busan monitoring processes has, in turn, fostered aid coordination mechanism and enhanced aid effectiveness.

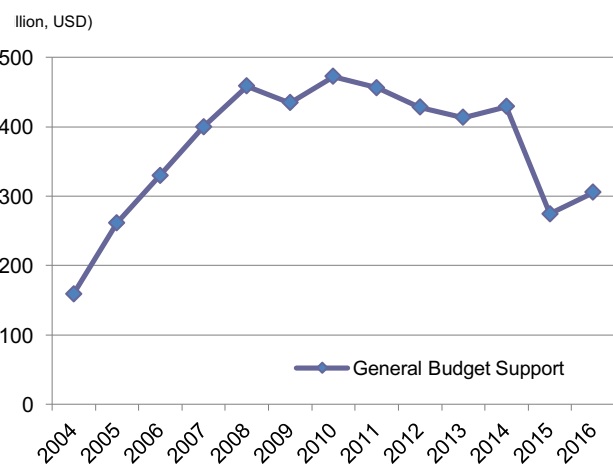
However, the landscape of development cooperation in Mozambique has been changing with the arrival of massive private Foreign Direct Investments (called the ‘mega project’ in Mozambique) initially in major aluminium manufacturing at the end of the 1990s, then expanding into the oil sector, coal and other products, mining, and most recently in natural gas development. These capital intensive projects have had a significant impact on the economy, particularly on infrastructure development. For instance, along with the development of the major coal mining projects by a Brazilian multinational in Tete province (central region), a new 912 km railway, a USD 4.4 billion investment, was recently completed. Beyond this specific project, a number of ports, rails, roads and power plants, to name just a few, have been constructed with the investment of the private sector in the past decade. The recent discovery of significant amounts of natural gas in Mozambican deep waters has also placed Mozambique as one of the top ten gas reservoirs in the world. The planned investments for liquefying the natural gas are expected to surpass USD 40 billion in the forthcoming years (MINER, 2014).

Yet, prices for commodities remain volatile and subject to the cycle of the global economy, thus impacting the tax revenue base and rendering government financing more fragile. For instance, in 2014 the price of coal dropped by half from the USD 120 per tonne recorded in 2012 (EITI, 2014). Prices of natural gas, which can potentially bring significant revenues, have not been immune to this global economy trend either. To build a resilient nation, the new five years government plan for 2015-2019<sup>3</sup> identifies agriculture as one of key sectors in which development efforts must be prioritized, and the government is focusing on diversifying its economy through an inclusive lens. Development cooperation can still play an important role but to that end, the overall architecture of development cooperation needs to be made more inclusive to integrate all partners’ contributions to the socio-economic development agenda while ensuring concerted efforts for inclusive and sustainable growth outcomes.

**Figure 1.1 ODA net disbursement to Mozambique**



**Figure 1.2 General Budget Support to Mozambique**



(Source: Ministry of Economy and Finance, Programme Aid Partnership)

<sup>3</sup> Programa Quinquenal do Governo (PQG) identified five priorities of the development objective; (i) Consolidation of national unity and peace; (ii) human and social capital development; (3) promotion of employment, productivity and competitiveness ; (iv) development of socio-economic infrastructure and (v) sustainable and transparent natural resources and environment management.



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## II. Development Cooperation Framework in Mozambique

Mozambique's development cooperation mechanism is governed by the "International Cooperation Policy and Strategy for its Implementation", which was adopted in 2010. The policy highlights the objectives, principles, scope, priority areas, relationship nature, dialogue and consultation mechanism between the country and its international cooperation partners. The main objective of this governing mechanism is to ensure that the contribution of international cooperation is well aligned with the priorities of the GoM. To that end, this policy embodies the PD principles as well as Busan principles emphasizing the importance of national ownership, alignment with existing national strategy and the predictability of foreign resources. The Ministry of Foreign Affairs and Cooperation (MINEC) and the Ministry of Economy and Finance (MEF)<sup>4</sup> are the key governing bodies for coordination, monitoring and evaluation of the implementation of this cooperation policy.

On the donor side, the development cooperation architecture is mainly driven by the PAPs that provide GBS to the GoM. The modalities for GBS first formalized in the MoU signed in 2004 and then renewed in 2009 with the signing of a second MoU still with 19 partners<sup>5</sup> are currently guided by a third MoU that was recently agreed (September 2015) for the next five years and that currently comprises 14 partners<sup>6</sup>. GBS has significantly contributed to Mozambique's public finance by providing about USD \$400 million each year on average, since 2004. Although the number of participating members has been reduced over time and their contribution to budget support is currently relatively lower than it used to be, the current GBS remains undoubtedly an essential and successful framework for development cooperation in Mozambique, especially in terms of predictability, alignment, harmonization and mutual accountability of ODA.

The latest joint assessment of the overall GBS performance, called "Aide-Memoire", highlights some key attributes of success and the importance of this development cooperation architecture.

The key attributes and structure of the latest MoU are as follows:

- Under the MoU's governing mechanism, GBS partners are directed to focus their efforts to enhance predictability, harmonization and alignment of their commitments with national priorities through this modality.
- MOU clearly defines monitoring, dialogue and accountability procedures which are aligned with GoM's planning, budgeting and monitoring cycle.
- ✓ High Level Dialogue is organized in May and October between GoM and Head of Mission level to discuss political and strategic matters.
- ✓ Steering Committee (SC) is the forum to take decisions by GoM and the GBS partners, chaired by GoM at national director level. SC is held on a monthly basis.

<sup>4</sup> The Cabinet of Mozambican government was reorganized in 2015, and the Ministry of Planning and Development and the Ministry of Finance was consolidated as one ministry, called the Ministry of Economy and Finance (MEF).

<sup>5</sup> 19 permanent members, at the time of signature of the Memorandum of Understanding in 2009, were African Development Bank, Austria, Canada, Belgium, Denmark, European Union, Finland, France, Germany, Ireland, Italy, Netherlands, Norway, Portugal, Spain, Sweden, Switzerland, United Kingdom, World Bank. Associate members were United States and United Nations, and Japan joined at later stage. IMF is an ex-officio member of the PAP.

<sup>6</sup> 14 partners are comprised of African Development Bank, Austria, Canada, European Union, Finland, France, Ireland, Italy, Portugal, Spain, Sweden, Switzerland, United Kingdom, World Bank.



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- ✓ GBS Dialogue Group is held in May and October for performance assessment and strategic planning, respectively.
- ✓ GBS priority are organised by groups (working group) that meet quarterly to discuss GBS priority areas such as; (i) country systems, (ii) inclusive growth, (iii) governance and accountability, and (iv) effective service delivery. The groups can then also operate at sub-group level on specific issues.
  - MoU clarifies the roles and responsibilities of GoM and GBS partners, which contributes to mutual accountabilities. For instance, in addition to having regular meetings it specifies the required documents needed by both parties and the specific mechanism for financial commitments and disbursements.
  - Proportion of total budget support, i.e. GBS and common fund of sector budget, accounted for 53% and 55% of ODA to the Government in 2013 and 2014 respectively. This highly contributed to improving the predictability of ODA and its alignment with the priorities of GoM. However, it is important to note that the timely disbursement of GBS according to agreed-upon schedules has been identified as a challenge to ensure short-term predictability of available funds.

### III. Transforming the Development Cooperation Landscape

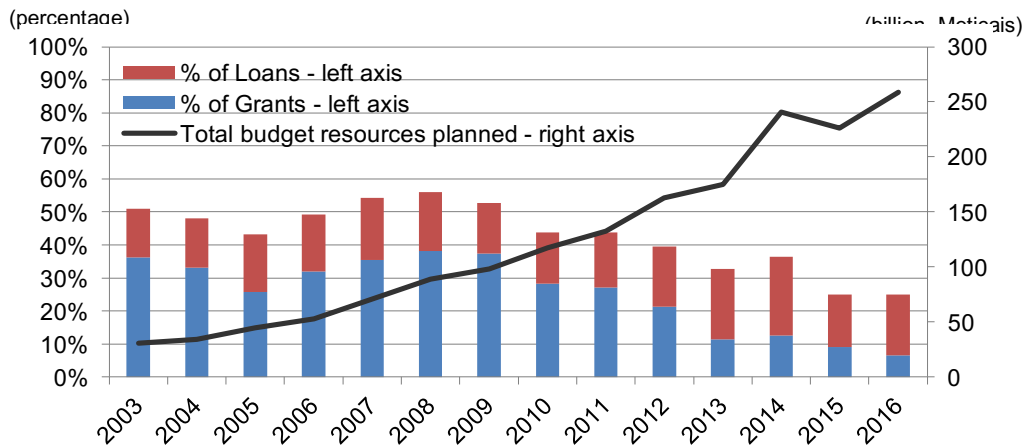
Although the development coordination architecture designed under the GBS MoU includes a key platform for the political dialogue between the GoM and development partners, this scheme is no longer extended to all the traditional OECD Donors let alone to non-traditional and emerging development partners, such as Brazil, China and South Africa. These emerging donors are undertaking important investments (by the private sector and/or public institutions) that have a significant impact on the socio-economic development of Mozambique, especially in terms of job creation and infrastructure development. To cope with this new and dynamic reality the existing coordination architecture needs to be reshaped and made more inclusive in order to accommodate both traditional and non-traditional development partners.

Although not fully operational, the current International Cooperation Policy already defines the role of GoM to coordinate all development partners and an International Cooperation Policy Coordination Forum, chaired by GoM, is designed specifically to engage such a broader dialogue with development partners. The existing Development Partners Group (DPG) is a platform co-chaired by the World Bank and the UN that facilitates dialogue among all development partners in Mozambique on a monthly basis. However, in the current format, it is neither a decision-making platform nor an official mechanism for interaction with the GoM. Consequently, aside from the MoU involving the GBS providers, an official multi-lateral governing mechanism for development cooperation dialogue, where both the GoM and development partners can formally and regularly engage, is not currently operational.

Another important factor that is changing the existing development cooperation is the diminishing dependency of GoM on external public finance sources. Until 2009, Mozambique relied on external sources to finance about 50% of its Budget. However, since then there has been a significant increase in domestic revenues as a result of the private sector's growth, that has gradually changed the landscape of public finance. Meanwhile, in absolute terms, the inflows of external public finance have remained largely unchanged throughout this period of remarkable economic growth, thus lowering the

relative importance of this source of funding in overall development finance. Domestic finance is currently a major resource for socio-economic development in Mozambique.

**Figure 4.1 Mozambique national budget and percentage of external public resources (grants and loans)**



#### IV. Global Partnership and its contribution to the Development Effectiveness Agenda

The Global Partnership for Effective Development Cooperation (GPEDC) plays an important role for Mozambique. The international effective development cooperation strategy of Mozambique today has already been inspired and supported by the global aid effectiveness agenda that is now part of the wider GPEDC.

Mozambique has made substantial progress in the way development cooperation is handled and towards the achievement of the PD targets. For instance, the aid-flow alignment with national priorities achieved of noticeable 90% (the 2010 target was 92%) improving from 83% recorded in 2006. PD framework and a large proportion of ODA channelled as GBS have contributed to this progress. Significant progress has also been seen in the reduction of parallel implementation units (PIU), which have been reduced to 6 (the target was 13 for 2010) largely as a result of a change in a particular donor’s approach, e.g. the World Bank and African Development Bank had 12 and 13 PIUs respectively in 2005, and reduced them to zero by 2010.

In terms of mutual accountability process indicators assessed by the OECD, the results of the 2011 survey of the Mutual Accountability System showed that Mozambique meets all three criteria, namely the existence of (i) aid policy and strategy, (ii) country level aid effectiveness targets and (iii) broad based dialogue. One of main driving forces of mutual accountability is the agreement of the MoU aforementioned, and the fact that the role of PAPs became more substantial after the United States and the United Nations entered as associate members in 2010. However, challenges remain on how the mutual accountability can be extended to donors and development partners who are not a part of PAPs.

The country has also made progress in the areas of strengthening capacity through coordinated support, achieving 24% against a target of 50% and in using national public finance management systems



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(achieved 48% against a target of 57%). The use of national procurement systems achieved 57% (a target was not set for this), although with large discrepancies among donors. Indeed, some still rely largely on their own procurement systems, while others are nowadays using almost exclusively the existing national procurement system.

Aid predictability achieved 84% (target was 85% for 2010), a significant increase from 70% achieved in 2005. The main causes for the discrepancies of disbursement, planned and recorded, have been identified by the government as due to (i) systematic delays in disbursement of funds, and (ii) difficulties of donors in providing information on actual disbursements and delays in the delivery of audit reports from previous years (Ministry of Planning and Development, 2011).

The use of common arrangements and procedures achieved 51% against the 66% target, joint mission achieved 18% (target is 40%), and joint analytical work almost achieved the target (60% against a 66% target). Due to data constraints it was not possible to measure achievements on the remaining indicators of the PD

For the past few years, GPEDC has already been playing an important role in providing guidance and facilitating capacity-building in Mozambique. As the country continues its journey to enhance its development cooperation and aid effectiveness agenda in order to benefit more fully from the much more complex and diversified development cooperation environment present in the country today, the GPEDC, and the role of partners willing to support Mozambique in this agenda, becomes even more critical.

## **V. Conclusion - Development Effectiveness Agenda and the Way Forward**

As the landscape of the development cooperation is changing dynamically, there is a strong need for Mozambique to transform the current framework of development cooperation architecture and make it systematically more operational and inclusive. To realize this endeavour, however, it would need to work on the following aspects:

- 1) The full operationalization of the International Cooperation Forum by;
  - ✓ creating a secretariat to support the forum in order to establish a dialogue platform among all the partners (i.e. traditional partners, non-traditional partners and others) and the GoM, and;
  - ✓ building capacity for the International Cooperation Forum members to fully operationalize the new and broader development effectiveness agenda.
- 2) Mapping exiting frameworks and agreements of all bilateral and multilateral development partners.
- 3) Designing and promoting an effective inter-ministerial coordination regarding development effectiveness.
- 4) Including development cooperation in a broader resource mobilization and financing for development agenda for the country for the achievement of the SDGs.





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- 5) Including in the forum line sectors and provincial level coordination and partnership frameworks.
- 6) Promoting transparency in international development cooperation information through;
  - ✓ revitalization of ODAMOZ database and/or similar real time information system, and its eventual expansion to cover additional sources of development finance in a fully integrated fashion; and
  - ✓ creation of information system through the production of communication materials such as pamphlets, posters, etc. for public consumption on development cooperation matters in the country.

The year 2015 is a special one for Mozambique. The country celebrates its 40<sup>th</sup> anniversary since independence in 1975. A new president has been sworn-in, bringing major reform in the ministerial structure. The new government has adopted a new five years development plan, and a new MoU with GBS partners has also recently been signed. The year 2015 is also a milestone year for the international development agenda with the Addis Ababa Action Agenda for Financing for Development, the new 2030 global agenda based on the new SDGs and the forthcoming conference on Climate Change in December. It is clear that the overall landscape of development cooperation is dynamically evolving both nationally and internationally. Taking into account this reality in developing a broader national development cooperation represents a major challenge and a formidable opportunity for Mozambique today.

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