

## Country Policy Brief

### Mozambique on the Crossroads: The new development cooperation landscape

Author

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#### ACKNOWLEDGEMENTS

My sincere recognition goes to Mrs Yuko Naab for the opportunity created for this manuscript; to UNDP Mozambique country office colleagues for the support given.

#### DISCLAIMER

The current publication is intended to be informal communications on economic issues relevant for the work of the UNDP in Mozambique. The views expressed are those of the author and may not be attributed to the UNDP.

October 2014

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## A. Introduction

Mozambique made a quick transition from a war-devastated socialist country to a thriving market-economy democracy in less than three decades. This turnaround, which was accompanied by strong Gross Domestic Product (GDP) growth (over 7% over the past decade), prudent macroeconomic management, and a significant reduction in poverty (15% in approximately a decade) attracted many donors to Mozambique. According to the Organization for Economic Cooperation and Development (OECD) report, Mozambique is the top sixth official development assistance (ODA) recipient in Africa. The country received 2077 million USD in 2012, representing 4% of the total ODA for Africa (OECD, 2014).

International cooperation has been the cornerstone of Mozambique's development for decades. By the end of the Mozambican Civil War in 1992, Mozambique was one of the poorest countries in the world, with an accumulated debt several times its GDP and almost all of its population in poverty (about 80% by the end of the civil war). Thanks to the Heavily Indebted Poor Countries Initiative, Mozambique was able to bring its debt to manageable levels (about 35% of its GDP by early 2000) and start investing in socio-economic development programs. Currently, about 55% of Mozambicans live below the national poverty line of 0.06 USD a day (INE, 2010).

International cooperation was part of post-war emergency assistance, economic structural reforms, post-war reconstruction efforts, and the economic boom that Mozambique is currently experiencing. Among all these international cooperation roles, the most notable is the Budget Support role.

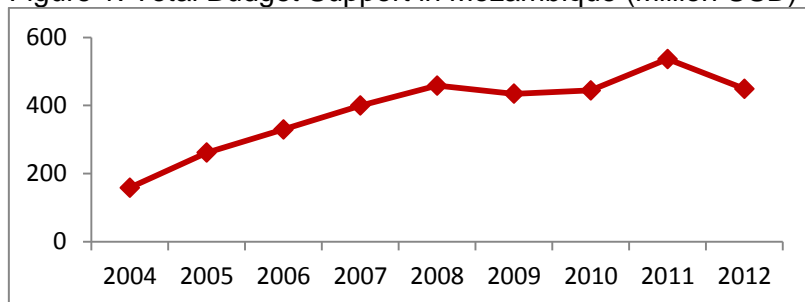
Thanks to the Budget Support scheme, Mozambique has a well-established development cooperation architecture, which has allowed the country to implement Paris Declaration principles as well as Busan commitments. Mozambique has participated in three Paris Declaration monitoring processes and one Busan commitment implementation monitoring and managed to fulfil the requirements for both. The Budget Support is the only development cooperation platform that allows the government and a group of international partners to discuss policy. It has provided important benefits to the country including technical, financial and institutional assistance.

However, the development cooperation landscape in Mozambique is changing. Mozambique has recently discovered significant amounts of natural resources in its subsoil: natural gas, oil, coal, heavy sands, precious minerals, etc. To give an example, the amount of natural gas discovered in the past few years in Mozambican deep waters is over 170 trillion cubic feet (MINER, 2014), which is enough to place Mozambique in the top ten gas reservoirs in the world.

These resources have put the country on the map for investors and have attracted significant levels of direct foreign investment. For example, the confirmed investment planned for natural gas exploration alone in Mozambique is over 40 billion USD for the coming years (MINER, 2014).

The current development cooperation landscape and framework in Mozambique presents important challenges and opportunities for the country. The present manuscript aims to explore the development cooperation status quo as well challenges and opportunities for Mozambique.

Figure 1: Total Budget Support in Mozambique (Million USD)



Source: Ministry of Finance and INE

## B. Development Cooperation and Partnership Framework in Mozambique

Mozambique's Development Cooperation and Partnership Framework is guided by the country's 2010 International Cooperation Policy and its implementation strategy. This document highlights the objectives, principles, scope, priority areas, relationship nature, dialogue and consultation mechanism between the country and its international partners.

The main objective of the International Cooperation Policy is to ensure the realization of government priorities as prescribed by the country's poverty reduction strategy. The policy embodies all of the Paris Declarations as well as Busan principles and elects direct budget support as the preferred development cooperation funding mechanism while the country strives for gradual reduction of external dependence.

The national and provincial implementation of the cooperation policy should be ensured by a coordination, monitoring and evaluation body involving the ministries of Foreign Affairs and Cooperation, the Ministry of Planning and Development, and the Ministry of Finance. These three ministries comprise the international cooperation policy coordination forum.

Traditionally, the development cooperation partners are led by the group of partners who provide direct budget support to the government. The Budget Support scheme was introduced in Mozambique in 2000 and has been normed by a memorandum of understanding signed by the government and its participating international partners. The current (second) memorandum of understanding was signed in 2009 by the government and 19 development partners, which is why the Budget Support partners are also known as the group of 19 or G19.

According to the 2014 Budget Support evaluation, this scheme has been a successful undertaking in Mozambique. Among other benefits, it was able to:

- I. Support the creation of an effective structure for dialogue between the government and its international partners.
  - This dialogue is based on well-defined policy targets and a framework of sector reviews and annual monitoring.
- II. Increase funding to the government with emphasis on priority sectors.
  - Budget Support represented on average 15% of public spending.

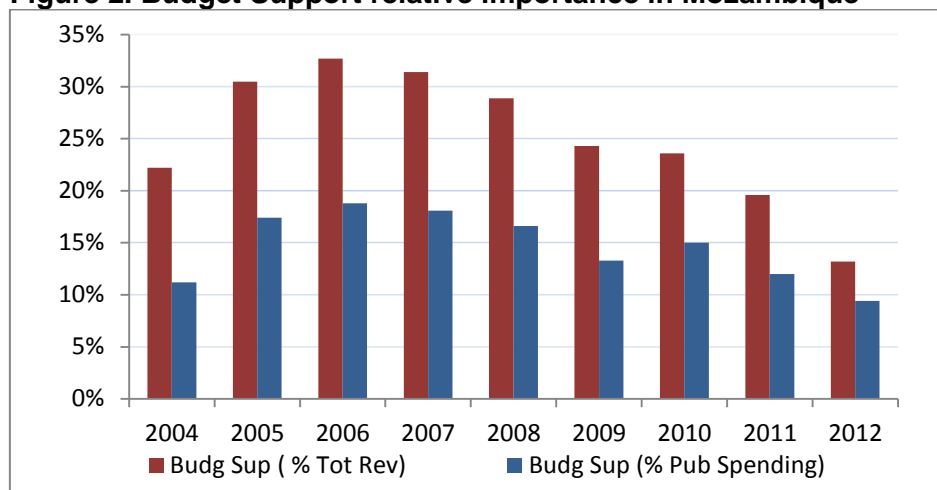
- Budget Support facilitated an expansion in domestically financed development spending from 3.2% of GDP in 2005 to 6.1% in 2012.
- Poverty strategy related spending increased by 61% of total spending.
- Budget Support has represented 30% of ODA since 2005.

### III. Improve efficiency of funding.

- Annual predictability of Budget Support has been significantly better than that of other aid modalities.

### IV. Allow significant technical assistance and capacity-building.

**Figure 2. Budget Support relative importance in Mozambique**



Source: Ministry of Finance and INE

## C. Effective Development Cooperation challenges and opportunities

Although the Budget Support process continues to be an instrumental platform in the support of Paris Declaration and Busan principles in the country, it has not been an inclusive dialogue platform. According to the most recent Budget Support policy dialogue aide memoire, the G19 recognizes that it does not represent all international partners operating on the ground and, as such, it needs to adapt its dialogue scope with the government.

The actors not belonging to the G19 group, such as Brazil, China and South Africa are exerting an increasing amount of influence in the country. The level of investment and potential revenue the country is expecting to gain from foreign direct investment from these and other international partners is substantial.

The G19's ability to influence development cooperation agenda in the country is diminishing.

The International Cooperation Coordination Forum, which was established under the International Cooperation Policy to coordinate all the international cooperation in the country, has not yet fulfilled its mandate.

Aside from the G19 scheme, there is no other forum that gives the international partners a formal dialogue platform with the government.

The Development Partners Group (DPG) is a platform that provides a meeting and discussion space for all international partners in Mozambique, including the G19 and others. It is co-chaired by the World Bank and the United Nations resident coordinator, however it has no formal decision-making power or formal interaction with the government.

If the International Development Cooperation Forum could provide a link between the DPG and the government, it could represent an important opportunity for Mozambique to expand its policy dialogue platform with its international partners. However, there may be a need to look at the concept of inclusiveness in the country, as different actors see it differently. It would be useful to look at inclusiveness in terms of inclusive engagement of partners in development discussions coordinated by the government rather than inclusiveness as membership of a group.

#### **D. Development Effectiveness Agenda and way forward**

Considering that the country has already accumulated extensive experience in the Development Effectiveness Agenda under the G19 scheme, it can now extend it to new partners and create an inclusive development effectiveness platform. However, to realize this endeavour, it needs to work on the following aspects:

- I. The fully operationalization of the International Cooperation Forum. This could include:

- The creation of a secretariat to support the forum in order to put together a dialogue platform between all the partners (including DPGs, G19 and others) and the government.
  - The Provision of capacity-building for the International Cooperation Forum members on international development cooperation management matters.
- II. The mapping and management by the forum of the different forms of bilateral and multilateral agreements the country has with the international development actors in the country.
- III. The extension of current G19 development cooperation experience to the non-traditional and new development partners.
- IV. The design and promotion of an inter-ministerial coordination framework covering all international cooperation areas in the country.
- V. The Inclusion of development cooperation in a broader resource mobilization and financing framework in the country.
- VI. The Inclusion of a sector and provincial levels coordination and partnership frameworks in the forum.
- VII. The Promotion of international cooperation information transparency.
- Revitalization of ODAMOZ database information system.
  - The Creation of an information system through the production of communication materials such as pamphlets, posters, etc. for public consumption of development cooperation matters in the country.

#### **E. Global Partnership and its contribution to the Development Effectiveness Agenda in Mozambique**

The Global Partnership for Effective Development Cooperation (GPEDC) has been of crucial importance for Mozambique. The international effective development cooperation strategy Mozambique has in place today has been supported by the global aid effectiveness efforts that are now part of the GPEDC.

Mozambique has made substantial progress in the way development cooperation is handled. The country has achieved the Paris Declaration targets for reliability of public financial management systems, aid-flow alignment with national priorities (achieved 91% alignment when the target was 90%), reduction of parallel implementation units (achieved 6 while the target was 13) and mutual accountability process indicators.

The country also made strong progress in the areas of strengthening capacity through coordinated support (achieved 24% when the target was 50%), use of national public finance management systems (achieved 48% of 57% target), the use of national procurement systems (achieved 57% - no specific target was set for this), aid predictability (achieved 84% of 85% target), use of common arrangements/procedures (achieved 51% of 66% target), joint mission (achieved 18% of 40% target), joint analytical work (achieved 60% of 66% target). Due to data constraint it was not possible to measure achievements on the remainder of the Paris Declaration/Busan indicators.

Through the years, the GPEDC has been crucial in providing guidance and capacity-building in Mozambique. In this more complex development cooperation environment, Mozambique will continue to need GPEDC assistance.

## **F. Conclusions and Recommendations**

Mozambique has benefitted substantially from international cooperation. It is one of the top official development assistance destinations in the African continent. The country has a well-established effective development cooperation scheme, however, this scheme is not inclusive. It only covers the partners who provide budget support. At the same time, Mozambique has discovered abundant natural resources, which has attracted many other international development partners.

The changing development cooperation landscape has provided a challenge to Mozambique as development cooperation has become more complex. Mozambique has the opportunity to build a more inclusive effective development cooperation scheme.

The manuscript recommends:

- a) The fully operationalization of the International Cooperation Forum.
- b) The extension of current G19 development cooperation experience to the non-traditional and new development partners.
- c) The design and promotion of an inter-ministerial coordination framework covering all international cooperation areas in the country.
- d) The Inclusion of development cooperation in a broader resource mobilization and financing framework in the country.
- e) The Inclusion of a sector and provincial levels coordination and partnership frameworks in the International Cooperation Forum.
- f) The Promotion of international cooperation information transparency.

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