

Executive Summary: Mozambique Country Strategy Note

Economic and Political Context:

Mozambique achieved independence in 1975, followed by a civil war that lasted 15 years and left the country with minimum physical and social infrastructure. The 10 years following the first multiparty elections in 1994 represented a period of solid progress, with an average annual economic growth of 9%. Strong economic growth was accompanied by significant progress in poverty reduction, from 69.7% of the population in 1996 to 52.8% in 2002, and foreign aid was a major source of external funds.

Mozambique's growth record was among the highest on the continent since early 2000s, and this was a period where the country experienced the peace dividend. Between 2000 and 2010, growth was mainly driven by the agriculture sector, which accounted for over 25% of GDP, and the services sector, such as transport, real estate, and financial services. From 2010, the extractive sector gained more prominence, driven by large FDI projects in coal and gas extraction, and this trend is predicted to continue in the future, considering the prospects for natural gas exploration in the Rovuma basin and "first gas" expected in 2024.

After sustaining an average real GDP growth of 7% for 2 decades until 2015, growth gradually declined until it reached an estimated 3.5 percent in 2018 (AfDB, 2019). The decline was largely the product of the "hidden debt" crisis in 2016, when high volumes of undeclared external debt from the government were discovered, which eroded investors' and donors' confidence in the country, setting both public and private investments in a negative trajectory in the following years. In 2019, the tropical cyclones Idai and Kenneth hit the country and caused major damage to infrastructure and livelihoods, further reducing the growth and well-being of the population.

The COVID-19 pandemic, in turn, has shaken the prospects of economic recovery from the hidden debt and cyclone crisis. The pandemic has affected the economy in two ways: through reduced domestic economic activity linked to low demand for goods and services as a result of lockdown measures, and reduced demand for commodity prices that slowed down the pace of investment in the important coal and natural gas industries. The combined effect of these factors led to negative economic growth in 2020, estimated at -1.3%.

The foundations of the Mozambican economic and political context remain fragile. The period since 2013 has seen a return of political tensions, as some members of the opposition (RENAMO) took up arms again, alleging that the benefits of growth were not being shared sufficiently. Although a new peace agreement was reached in 2019, it was violated several times by a dissident RENAMO military faction known as "Junta Militar". Moreover, the government is struggling with an Islamist insurgency in areas of the Cabo-Delgado province, which started in 2017 and has intensified from 2020, forcing the government to concentrate military troops in that part of the country.

Looking ahead, macroeconomic stability is critical for restoring investors' trust in Mozambique and resuming capital flows, through both external funding and foreign direct investment (FDI). Fiscal austerity measures are at the core of Mozambique's macroeconomic plan and government authorities will need to continue to show signs of commitment to fiscal sustainability while improving efficiency in the use of the scarce financial resources available.

Despite a strong growth trajectory during the years since 2000 and a decline in poverty rates, growth gains have not been well distributed. Inequality is slowly becoming a structural problem. The economy is still highly concentrated on commodities and therefore vulnerable to external shocks. Mozambique's climatic conditions are also prone to natural disasters. A more

Strategy note

diversified and inclusive economy can mitigate the impact of these types of shocks and allow more Mozambicans to benefit from shared growth. Building resilience, creating fiscal buffers, and developing the insurance markets can help mitigate risks associated with natural disasters. At the same time, it will be important to enhance key drivers of inclusion, by increasing access to basic services, such as education, health, sanitation, electricity, as well as access to labour markets and means of production, which in turn could improve social indicators.

Another long-term measure is increasing the productivity in agriculture and the living conditions in the cities, which should push the country towards more inclusive growth. Despite the strong rural exodus absorbed by services in urban areas, a significant portion of the population still lives in rural areas and rely on smallholder farming. Improving access to information and reducing market distortions, as well as the technical skills of smallholder farmers and linkages to value chains can boost the productivity in agriculture. At the same time, promoting a balanced urbanization process is a key challenge in a country that needs to give economic opportunities to urban youths.

Country Programme:

Overview

The IGC Mozambique programme was established in 2010. Since its set up, the team has focused on building strong relationships with policymakers and the research community, which resulted in successfully spearheading a range of high-impact projects across the IGC's focus themes. IGC Mozambique assisted the government with the drafting of the National Development Strategy (2015-2035) and is supporting its implementation through the Ministry of the Economy & Finance (MEF), based fundamentally on effective inter-ministerial coordination and public-private dialogue.

IGC Mozambique is led by the Country Director Claudio Frischtak, two Lead Academics namely Sandra Sequeira and Pedro Vicente, a Country Economist Egas Daniel, and an Office Manager Sandra Pires.

The IGC office in Mozambique is located at the MEF, according to a Memorandum of Understanding between both institutions, which was renewed in 2019. The MEF, besides being our main institutional focal point and the greatest champion of our work in Mozambique, is also an important link between the IGC and other organs of the Government of Mozambique, as the MEF guides the formulation of the Government's economic and social development policies.

IGC Mozambique: Recent Work and Impact

Since its establishment, the IGC Mozambique team has focused its efforts on three main areas of work:

State: This area included research on social sectors, particularly health and education, as well as issues related to political economy in conflict-affected areas, namely in Cabo Delgado province.

Within a context of tight austerity measures after the hidden debt crisis, the efficiency and quality of public spending became an even more critical issue in Mozambique. In close collaboration with government stakeholders, IGC Mozambique designed research projects

Strategy note

that addressed specific needs in social sectors and cemented its position as a key provider of evidence-based recommendations. IGC Mozambique's key counterparts in social sectors are the Ministry of Health – particularly through its research arm, i.e., the National Health Institute – and the Ministry of Education. The highlight goes to the IGC efforts through the years to push for the scheduling intervention in clinics to become a central part of primary care delivery in the country, and this was adopted by the Ministry of Health to be part of the National Health Strategy in the next 5 years (2020-2024).

Moreover, the programme conducted innovative research projects in Cabo Delgado, a province that has been affected by civil conflict in recent years. These instances of violence have ties to expectations about the exploration and management of natural resources in the region, as well as initial movements towards Islamic radicalisation. IGC Mozambique's research findings have brought new light into the discussions on how to build trust in local institutions and decrease the likelihood of youth being radicalised in the region. Government and non-government stakeholders have benefited from this research, including the Ministry of Defence, the Provincial Government of Cabo Delgado Province, and the Islamic Council of Mozambique.

Firms: This theme includes research on key-value chains for the country, trade statistics, mobile money and financial inclusion.

Through a series of works produced in-house, the IGC Mozambique programme examined different agro-based value chains and proposed policy recommendations that directed policymaking. The IGC carried out analyses on poultry, cotton, and pigeon pea value chains in response to direct requests from its government partners. Moreover, these value chain studies led to further work on reference price modelling and trade statistics, which were also crucial for the government, besides a recent value chain study, this time focused on maize, which informed the Cereals Institute of Mozambique Strategic Plan (2020-2029). For example, the Export Agricultural Reference Price Modelling allowed the government to replace the previous export quota system for pigeon peas by a new reference price in December 2018. This model was adopted by ICM and allowed that the large number of pigeon pea farmers (over 2 million peasant families depend on this crop for their cash needs) are fairly paid by traders engaged by exporters. The programme's studies on value chains in poultry and cotton were particularly important to support the Ministry of Economy & Finance in the implementation of the National Development Strategy (2015-2035) through: 1) proposing Terms of Reference adopted by the Ministry of Agriculture for a new private sector engagement strategy; 2) the poultry study specifically led to the creation of the Association of Poultry Producers (AMIA) in 2019 and became the basis for the African Development Bank and IPEME (the Institute supporting SMEs) to provide a line of credit for poultry producers.

IGC Mozambique also promoted a strong body of research work on Mobile Money and Financial Inclusion in its early years in Mozambique. The first projects focused on internal transfers and savings, in both rural and urban settings, and their results set the ground for creating a platform in 2015 for a constructive dialogue between the Bank of Mozambique and private operators of mobile money services. This work supported the national strategy for financial inclusion, as set by the Bank of Mozambique, and the launching of operations by FSD Mozambique. A second round of collaboration resulted in a study on payment interoperability of financial institutions, which also had a significant policy influence in 2017 – the Bank of Mozambique used the study's findings and recommendations to formulate its official position on interoperability.

Strategy note

IGC Mozambique: Outlook

IGC Mozambique intends to support the government in addressing its short and longer-term challenges, by building on the past decade of work. The programme has been specializing on topics related to State and Firms given their centrality to the Mozambican process of growth and the high levels of demand for these topics in government. Looking ahead, IGC Mozambique will continue this path while considering cost-effective, high-impact opportunities to expand to other themes namely: Energy and Environment, and Cities and Infrastructure.

State

The political economy of resource management. This line of work will encompass research on accountability and transparency, as well as the role of information, in the context of: i) natural resource discoveries; and ii) reconstruction after natural calamities (e.g., recent cyclone Idai). IGC Mozambique will also devote attention to redistribution strategies in the context of natural resource exploration (as in the case of artisanal mining), and conflict prevention (related to the emergence of Islamic extremism in the north of Mozambique.). IGC Mozambique will specifically focus on the role of the media, youth sensitization, and economic opportunities such as the promotion of employment policies in conflict-prevention. The team will be engaging in new research on taxation and macroeconomic policy to – inter alia – avoid the resource curse.

Health and Education: This line of work will focus primarily on the dissemination of the outputs already existing in the form of conferences and events. In the health sector, in particular, work will be prioritized on the potential to deal with minimizing the negative effects of the pandemic on the health system.

Firms

Identifying interventions to promote the development of agricultural value chains to diversify the Mozambican economy and promote long-term economic growth: This work is undertaken in close collaboration with MEF, the Ministry of Agriculture, and the Mozambican Institute of Cereals. IGC Mozambique will be working on other value chain crops, starting with soy, as complementary to the work on maize. Both (soy and maize) are inputs into domestic poultry production (characterized by excess demand in view of local preferences as already documented), in addition to the fact that soy milk would be an important protein-rich drink to children in Mozambique, and could be distributed through the school system.

Energy and Environment

Climate change: Mozambique ranks third among the African countries most exposed to risks from multiple weather-related hazards, suffering from periodic floods, cyclones, and droughts. This line of work includes research related to adaptation to climate change and managing the aftermath of economically disruptive climate events. This is in relation to the recent cyclones affecting central and northern Mozambique, and the substantial pressure the government is facing for better prevention to minimize the effects of future natural calamities.

Electrification and access to power: IGC Mozambique will also devote attention to electrification and access to power by poor Mozambicans, namely, to improving coverage and the reliability of grid services in rural areas. This objective is aligned with the intention of the Government of Mozambique in its Five-Year Plan (2020-2024) to continue expanding access

Strategy note

to electricity with a special focus on rural and peri-urban areas, raising the level to 64% by 2024, and to 100% by 2030.

Cities and Infrastructures

The current rapid urbanization of cities in Mozambique is likely to lead to both economic development and political change. IGC Mozambique plans to make new progress on the theme of cities and infrastructure working in close collaboration with provincial and city governments, and responding to their clear demands. The projects will include research on the links between rural migrants and urbanization in the context of structural transformation, as well as property tax and urban infrastructure. The work on urbanisation will focus first on programmes to integrate rural migrants who arrive in cities in a disadvantaged position, which will reduce related negative externalities. The same approach will be used with regard to refugees from the different conflict zones in the country. Second, we will explore the possibility of creating property taxation schemes to increase municipal revenue.

Country Team's Inclusive Growth Strategy

Economic growth in Mozambique has not been able to reduce poverty levels in recent years. The gap between rural and urban areas is large and persistent - if not worsening. Living conditions in southern Mozambique are much better than in other regions, partly due to a higher level of urbanisation in the south.

Recognizing the need for inclusive economic growth, IGC Mozambique intends to push the diversification of Mozambique's economy through increasing productivity in agriculture and enhancing the livelihoods of small farmers as they transition to commercial agriculture. Strengthening the value chains of the main crops will allow better distribution of gains from agriculture among all actors in the chain, with an emphasis on smallholder farmers (composed mostly of women) that get the least gains from the chain. Equally important is improving the process of urbanization while reducing labor market and other barriers to rural migrants and displaced populations. Similarly, the work on community access to electricity will stimulate electricity uptake of the marginalized through increasing access and adjusting tariffs to poor communities. This will also be ensured by working to better understand the differentiated impacts of economic policy on traditionally marginalized groups. And finally, building resilience to negative shocks in the economy, including climate related. In the area of Economic Governance, the political economy of IGC Mozambique's work around the conflict in Cabo Delgado will contribute to enfranchisement of economically disadvantaged youth who are easily attracted to extremist movements.

Partnerships, Policy Engagements, and collaborations

IGC Mozambique programme intends to continue to build on its existing network of institutional stakeholders, where the following feature prominently: MEF, Ministry of Agriculture and Rural Development, Cereal Institute of Mozambique, and Bank of Mozambique. The team will also expand our partnerships regarding the new areas of work, namely with the Ministry of Energy and Mines, Integrated Northern Development Agency, and Quelimane, Maputo and Beira Municipalities. IGC Mozambique has also broadened and deepened relationships with other non-Governmental partners including Islamic Council of Mozambique, UNICEF, WHO, FCDO, and World Bank.

Strategy note

The team will continue to engage with various stakeholders in the country (Government, IOs, NGOs) to inform them about our activities and to create areas of collaboration. The table below provides a list of government stakeholders classified according to which theme they have collaborated with the IGC.

Relationships with stakeholders and partners by theme

Theme	Government stakeholders	Non-government stakeholders
State	<ul style="list-style-type: none"> • Ministry of Health • Ministry of Gender, Childhood and Social Work Provincial Government of Cabo Delgado • Integrated Northern Development Agency • Ministry of Economy and Finance • Provincial Government of Cabo Delgado 	<ul style="list-style-type: none"> • UNICEF • WHO • Islamic Council of Mozambique • FCDO • World Bank
Firms	<ul style="list-style-type: none"> • Ministry of Economy and Finance • Ministry of Agriculture and Rural Development • Cereal Institute of Mozambique • Bank of Mozambique 	<ul style="list-style-type: none"> • FCDO • World Bank • GIZ (German Corporation for International Cooperation)
Energy and Environment	<ul style="list-style-type: none"> • Ministry of Energy and Mines • Quelimane Municipality 	<ul style="list-style-type: none"> • World Bank
Cities and Infrastructure	<ul style="list-style-type: none"> • Quelimane, Maputo and Beira Municipalities 	<ul style="list-style-type: none"> • World Bank

Country Covid-19 Strategy: Response and Recovery

Response Strategy

The COVID-19 pandemic has been a challenge to inclusive growth in Mozambique. The prompt reaction of the Mozambican Government to the pandemic, through the imposition of bold restrictions even before the confirmation of the first case, helped to delay the rapid spread of the virus compared to other countries. However, in the short term, these measures negatively affected the economy, leading to a reduction in economic activity by 3.3% percentage points and employment rate by 7.8% percentage points in May 2020.

IGC Mozambique has been supporting the Mozambican government in its response to COVID-19 through frequent engagement to understand the current needs of the country and to assess potential areas for research and policy influence. IGC Mozambique team have been sharing IGC policy briefs, blogposts, and other documents that were relevant to the

Strategy note

Mozambican context. The COVID-19 Guidance Note was widely shared with different levels of the Mozambican government, including to Scientific and Technical Commission set up to advise the Government on its response to the COVID-19 pandemic.

IGC Mozambique also launched a project on beliefs and behaviours around COVID-19 in Mozambique, which aim to understand potential ways to consider and integrate traditional health beliefs in the policies related to the COVID-19 emergency. This project also includes the impact evaluation of an information campaign on vaccination against COVID-19, which will be carried out in the country from mid-2021.

In the health space, IGC Mozambique is building on the work done by one of our Lead Academics to implement scheduling systems in health facilities in the country to reduce overcrowding that could exacerbate the spread of COVID-19, following a specific request by the Ministry of Health. Moreover, the Ministry of Health has recently asked IGC Mozambique to support the production of a model to track and understand the spread of COVID-19.

Looking ahead, IGC Mozambique will continue to focus on generating and disseminating new content around the potential impacts of COVID-19, alongside looking for any potential to leverage previous findings and design policy briefs that can respond to current and future demands from policymakers.

Recovery Strategy

In addition to ongoing interaction and direct responses to the government in relation to the pandemic of COVID-19, IGC Mozambique will continue to work in areas that are key to promote inclusive economic growth in Mozambique and contribute to the rapid recovery from the COVID-19 pandemic. Specifically, we will devote particular attention to:

- Supporting the Government in dealing with the conflict in Cabo Delgado. These efforts will improve stability in the northern region and contribute not to delay further the investments related to natural gas in the Rovuma Basin. These investments are an important factor in Mozambique's economic recovery.
- Continuing work in the area of agriculture. Improving technical skills of smallholder farmers and linkages to value chains, while reducing market imperfections and information asymmetry, can boost productivity and accelerate the economic recovery (given its high share in GDP, with around 25%).
- Expanding power supply and increasing access to electricity, which is a key component of the Government's programme. This will stimulate economic growth and recovery, while improving the well-being of poor and power-deprived families.
- Helping some of the main cities in Mozambique (Maputo, Beira and Quelimane) with the study of programs related to the integration of rural migrants, property tax, and urban infrastructure. These will be important contributors to the rapid urbanization and increased efficiency of the Mozambique economy.
- Working closely with MEF to improve its capacity to offer adequate solutions to the major challenges the pandemic crisis poses to supply chains and the national private sector.